FILE COPY

No. 806

IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

ALMA MOTOR COMPANY,

Petitioner,

vs.

THE TIMKEN-DETROIT AXLE COMPANY,

Respondent,

UNITED STATES OF AMERICA,

Intervenor.

BRIEF FOR PETITIONER

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BRIEF FOR PETITIONER

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1. OPINIONS BELOW.

This case comes before this Court by reason of the granting of the writ of certiorari to review a decision, as amended on denial of rehearing of the Third Circuit Court of Appeals in the case of *Alma Motor Company*,

Appellant, vs. The Timken-Detroit Axle Company, Appellee, and *The United States of America, Intervenor* (R. 112-120) reported at 144 F. 2d. 714, which case was an appeal from the District Court of Delaware from a decision in the case of *The Timken-Detroit Axle Company, Plaintiff, vs. Alma Motor Company, Defendant* (R. 33-45) reported at 47 Fed. Sup. 582.

2. JURISDICTION

(1) This is a suit arising under the Declaratory Judgment Act, Judicial Code, Sec. 274-d (28 U. S. C. A. 400) (R. 2, 8), and under the patent laws of the United States, Judicial Code, Sec. 24 (Par. 1 and 7) (28 U. S. C. A. 41, Par. 1 and 7) (R. 8).

(2) The jurisdiction of this Court is invoked under Sec. 240(a) of the Judicial Code as amended by the act of February 13, 1925 (28 U. S. C. A. 347).

(3) The date of the Judgment which petitioner seeks to have reviewed is October 2, 1944.

(4) The writ of certiorari was granted by this Court February 5, 1945.

3. STATEMENT OF THE CASE

(a) The Contract and Its Inducement

This case stems primarily from a contract entered into between petitioner, Alma Motor Company, and respondent, The Timken-Detroit Axle Company, entered into in May, 1938, under the terms of which Alma licensed Timken under a certain United States Letters Patent 2,173,044 issued to Ruggles and Smith, September 12, 1939.

As the facts leading up to the execution of the contract and the major provisions of the said contract were very succinctly and impartially discussed in the opinion of the District Court for the District of Delaware, we feel we can do no better than quote from the opinion as follows:

> "In this action the plaintiff, under the Declaratory Judgment Act, asks the Court to determine certain questions of law and fact, arising in connection with the defendant's patent No. 2,173,044 (issued to Ruggles and Smith September 12, 1939) and an agreement by which the plaintiff became a licensee. The patent is for mechanism known as a transfer case—an auxiliary transmission by which the drive of the engine of an automobile truck may be extended to the front axle as well as to the rear. In substance, the relief asked for is that the Court declare that the patent is invalid, that the transfer cases manufactured by the plaintiff do not come within its claims as construed in the light of the prior art, and that, under the license agreement, or, in spite of it, the plaintiff is not bound to pay royalties upon any of the transfer cases now being

manufactured by it. The defendant has counterclaimed asking judgment for damages for the plaintiff's failure to pay royalties.

"In the early part of 1938, the plaintiff, Timken, the defendant, Alma, and a third company, Harrington, were in interference, each with a patent application for a transfer case. The three devices were essentially the same and [fol. 45] there were 15 counts in the interference. After some preliminary sparring in the Patent Office, there was a meeting between representatives of the three parties at the Book-Cadillac Hotel in Detroit in May, 1938, at which it was agreed that Alma should have the patent and would license the other two when it issued. There are some indications of a general feeling that the patent, even if valid, would not be of outstanding importance and that its ownership was not worth litigating. After the conference, Timken and Harrington formally conceded priority to Alma, Alma disclaimed certain counts of the interference which the parties had agreed were anticipated by prior art which had been produced and studied at the conference, and Alma and Timken executed the license agreement in question, Harrington dropping out because it had come to the conclusion that it did not want to manufacture the cases.

"There were actually two contract documents executed, the first on May 16, 1938, and the second on May 26, 1938, but I think they may be considered together as though they were a single license agreement. The second embodied the essential terms of the first, and the parties are apparently in agreement that the recitals in the earlier document should be considered in determining the scope and construction of the later one.

"The first question is whether or not Timken is estopped to contest the validity of the patent. I am of the opinion that it is estopped to raise that issue,

and therefore will not adjudicate the patent in this proceeding.

"The rule that a licensee may not contest the validity of the patent under which he is licensed is well settled and has long been a part of the patent law. In this case Timken endeavors to avail itself of several avenues of escape from the estoppel.

"First, Timken contends that this license, by its terms as interpreted in the light of the recitals, intends that the licensee shall be free to contest the patent. I do not so read the agreement. The contention is based on the first [fol. 46] recital of the agreement of May 16 and on Clause IV of the second document which is practically identical with Clause VI of the first document.

"The recital, of course, was intended to define the subject matter. It is a statement that Ruggles and Smith have invented certain improvements, which improvements are further described as transfer cases and identified as the ones disclosed in the Ruggles and Smith application then pending. Then Alma licenses Timken to make, etc. 'the said improvements' and Timken agrees to pay royalties upon transfer cases 'embodying said improvements.' Then there is a clause the meaning of which is that, after the issuance of the patent, the royalties shall be paid only if any of the claims dominate the transfer cases made by Timken. I think it perfectly plain that the intention was to pay royalties on transfer cases coming within the terms of the claims of the patent as issued. I do not think that the incidental use of the word 'invented' meant that it was intended the licensee was to be free to contend that his obligation to pay royalties was not coextensive with the issued patent as defined by its claims. Five patent lawyers participated in the conference, and at least two in drawing the agreement. They understood the rule that estops a licensee and

certainly would have provided against it in plainer terms than these had that been the intention of the parties. But even if it were possible, by emphasis upon the word 'invented,' to whittle down the scope of the license to something less than the patent, I should say that the recital estopped Timken to deny that Ruggles and Smith had invented the improvements just as much as the license estops it to contest the validity of the patent.

"The assertion in Timken's brief that Alma represented that Ruggles and Smith invented the improvements in question is not entirely correct. Actually, it was as much Timken's assertion as Alma's. Both parties executed the agreement and both agreed to the recital. They had before them practically the same prior art which was presented at the [fol. 47] hearing. As a matter of fact Timken's lawyers knew more about the prior art than Alma did, an important use having been shown to Alma's counsel, for the first time, only a few hours before the conference.

"The clause referring to the issuance of a patent with claims dominating transfer cases made by Timken seems to have been inserted, from an excess of caution, to be sure that 'said improvements' could not possibly be construed to cover any improvements disclosed by the pending application which might be eliminated or extensively modified in the issued patent. If anything, this clause only serves to make stronger the inference that the subject matter of the license was improvements as described in the patent claims.

"The provision contained in Clause IV does not permit the licensee to contest the validity of the patent. This point is settled by the decision of the Supreme Court of the United States v. Harvey Steel Co., 196 U. S. 310.

"Another ground for Timken's contention that it is not estopped is the public interest involved in

any adjudication involving the validity of the patent. There have been cases in which public interest has been said to be a justification for allowing a licensee to contest validity but, as pointed out by this Court in Crom v. Cement Gun Company, Civil Action No. 145, in an opinion filed June 25, 1942, but not yet reported, this is only in exceptional cases. Such a case was Standard Water etc. v. Griscom-Russell Co., 278 Fed. 703. That decision as pointed out by this Court in the Crom case did not change the general rule for the Third Circuit. I find no circumstances in the present action which requires a consideration of the validity of this patent in the public interest. I am not adjudicating its validity. I am merely holding that this plaintiff may not contest it, and I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here. I might go further and say that an issue which the party who attempts to raise it is [fol. 48] estopped to contest does not present a justiciable controversy under the Declaratory Judgment Act" (R. 33-36).

As the order or sequence in point of time of the various events which occurred that have resulted in bringing this case before this Court for review bear most importantly on the issues, we have set these events forth in chronological order.

(b) The Action in the District Court

January 23, 1941, respondent, The Timken-Detroit Axle Company, by filing its complaint (R. 2-9) in the United States District Court for the District of Delaware, initiated the proceedings which have brought the parties before this tribunal. Respondent under the Declaratory Judgment Act (Section 274-d Judicial Code; 28 U.S.C.A.

400) sought a determination that petitioner's United States Letters Patent 2,173,044 (Application Serial No. 7751), issued to Ruggles and Smith September 12, 1939, is invalid; not infringed by the structures manufactured, used and/or sold by the respondent (R. 7, 9); and further that the respondent—although a license agreement (R. 88-90) existed between petitioner and respondent, wherein the latter was licensed to practice the invention of the aforesaid patent—was not obligated to pay royalties upon any of the transfer cases manufactured by respondent (R. 8).

May 5, 1944, petitioner filed an answer and counterclaim (R. 9-13) for damages resulting from respondent's refusal to pay royalties under the said license agreement.

May 18 to 22, 1942, the case duly came to trial and was tried in open court before District Judge Kirkpatrick.

September 23, 1942, District Judge Kirkpatrick filed his opinion (R. 33-49) wherein he held that the respondent Timken, being a licensee under the aforesaid patent, was estopped to contest the validity of said patent and further that certain specified transfer cases manufactured by the respondent infringed certain of the claims of the patent but that other transfer cases did not infringe.

December 2, 1942, judgment was entered in the District Court decreeing:

> "1. That Letters Patent of the United States No. 2,173,044, issued September 12, 1939, on the invention of Ruggles and Smith for 'Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles' is owned by the defendant, Alma Motor Company.

"2. Plaintiff is a licensee under such patent and has been since the issuance thereof on September 12, 1939.

"3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein.

"4. That plaintiff has manufactured and sold auxiliary transmission mechanism since the issue date of said Ruggles and Smith patent which are dominated by one or more claims of such Ruggles and Smith patent," the Court specifying the specific transfer cases and the claims by which they are dominated, *"and that plaintiff should have paid to defendant royalties in accordance with the license agreement on all such auxiliary transfer cases."**

"5. The remaining auxiliary transmission mechanisms manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent either are not dominated by any claim of such Ruggles and Smith patent or no claim of royalty thereon has been made by defendant in this suit."

c. Proceedings Under Public Law 768

October 31, 1942, Public Law 768, known as the Royalty Adjustment Act (R. 56-59), became effective as law.

December 30, 1942, the office of the Chief of Ordnance, War Department, issued a notice, under Public Law 768 (R. 106-7), stating that royalty payments by respondent to petitioner were believed to be excessive and directing that no further royalties be paid in excess of that to be specified in an order to be subsequently issued.

(*Emphasis in this and other quotations ours.)

January 8, 1943, pursuant to said notice, petitioner by written request (R. 107-8) to the Chief of Ordnance, War Department, asked that a hearing be granted petitioner.

January 28, 1943, a deputy ordnance assistant notified petitioner that the requested hearing would be had at Detroit, Michigan, on February 8, 1943 (R. 109-10).

February 8, 1943, a hearing before a Royalty Adjustment Board, consisting of two army ordnance officers and a naval officer, was held at Detroit, Michigan (R. 61-86).

July 28, 1943, the War Department, allegedly "pursuant to authority contained in the Act of October 31, 1942" (Public Law 768) issued Royalty Adjustment Order No. W-3 (R. 93-97), which order *inter alia* directed (1) respondent—the licensee, The Timken-Detroit Axle Company—to pay no further royalty to the licensor, Alma Motor Company (R. 94, par. "2"), (2) Timken was ordered "forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing," under such license "which (a) on the effective date of said notice (December 30, 1942) were due and payable to licensor but were unpaid or (b) fall due for payment at any time after the effective date of said notice * * *" (R. 95 par. "3"); and (3) Timken was ordered to reduce the contract price on all material "for which licensee has not on the date of this Order received payment" (R. 95, par. "4").

d. Proceedings in the Third Circuit Court of Appeals

February 27, 1943, petitioner filed its appeal to the Third Circuit Court from that part only of the judgment

contained in paragraph 5 thereof; petitioner's appeal being specifically limited, however, to those transfer cases manufactured by respondent, Timken, and designated as the T-79 cases (R. 51-2). Respondent filed no appeal whatsoever.

On August 25, 1943, after the issuance of the aforesaid Order No. W-3, respondent Timken filed a motion (R. 53) to dismiss petitioner Alma's appeal to the Third Circuit Court of Appeals, which appeal had been filed on the 27th day of February 1943, as above stated. It was urged (a) that said appeal be dismissed "because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768"; (R. 53) or, in the alternative (b) that the appeal be dismissed and the cause "be remanded to the District Court of Delaware with instructions to consider its judgment in light of the War Department order issued against the parties hereto on July 28, 1943, and to take such further action as may be appropriate under the circumstances" (R. 53).

November 15, 1943, when petitioner's appeal in the Third Circuit was called for hearing, the Department of Justice presented its Motion for Leave to File a Memorandum Brief as *Amicus Curiae* in support of Timken's motion to dismiss petitioner's appeal (R. 96-97). Such leave was granted. The motion of the Government urged that petitioner's appeal had been rendered moot by the issuance of Royalty Adjustment Order No. W-3 under Public Law 768 (R. 97).

The argument at the hearing on November 15, 1943, was directed solely to the motion to dismiss the appeal, the Court declining to hear argument on the merits at that stage of the proceedings. At the conclusion of the argument the Court directed counsel for petitioner to

assert Alma's position with regard to the constitutionality of the Royalty Adjustment Act (R. 113).

December 6, 1943, in response to such direction, petitioner filed its Petition to Review and Vacate Royalty Adjustment Order No. W-3 (R. 98-103). The said petition invoked the Constitution of the United States for the protection of petitioner, Alma Motor Company's, rights (R. 101) and urged:

(1) That as the notice of the hearing by the Royalty Adjustment Board on February 8, 1943, which stated that the hearing was to be held for the purpose of examining into the reasonableness of the royalty provided for by the license contract between the parties, did not correspond with the subject matter examined into at such hearing, viz., the validity of the Ruggles and Smith patent, therefore the hearing and the order issued as the result of such hearing did not constitute due process of law (R. 101).

(2) That the Royalty Adjustment Order No. W-3 was unconstitutional as retrospective and destroyed property rights of petitioner which had become legally and completely vested long prior to the issuance of said order (R. 101-102).

(3) That as the Order providing that there should be no payment of royalty under the contract was based upon a holding of invalidity of the Ruggles and Smith patent No. 2,173,044, predicated upon "an opinion of the Chief of Ordnance" arrived at prior to said hearing; as no evidence was produced at the hearing; no proper notice of hearing was given; and no findings made to support the legal conclusion of invalidity; petitioner was divested of vested property rights without due process of law (R. 102).

(4) That as Royalty Adjustment Order No. W-3 is clearly retrospective and destroyed property rights of petitioner which had become completely and fully vested prior to the issuance of such Order, Public Law 768 is unconstitutional, insofar as it authorized the issuance of the said Order, as violative of the provisions of the Fifth Amendment to the Constitution (R. 102).

(5) That as the said Royalty Adjustment Order No. W-3 and/or Public Law 768, purports to affect and modify a contractual obligation between private parties by authorizing a defense to said contractual obligation nonexistent at law prior to October 31, 1942, and affecting property rights that had become legally and completely vested prior to said date; said Royalty Adjustment Order and/or Public Law 768 are invalid and unconstitutional (R. 102); and

(6) That insofar as Royalty Adjustment Order No. W-3 held a duly issued United States Letters Patent invalid or insofar as Public Law 768 authorized an Administrative Board of the Executive Department to pass upon the validity of a United States patent, said Order and/or Public Law 768 is invalid and unconstitutional as (a) constituting an arbitrary and capricious exercise of power and usurpation of a purely judicial prerogative by such an Administrative Board; (b) deprived appellant of a vested property right without due process of law in contravention to the explicit prohibitions of the Fifth Amendment to the Constitution of the United States; (c) violated the provisions of Article III, Section 2 of said Constitution and violated the intent and purpose of the second paragraph of Article VI of said Constitution.

December 7, 1943, the Clerk of the Third Circuit Court of Appeals duly certified to the Attorney General, pur-

suant to the Act of August 24, 1937 (28 USC 401), that appellant had challenged the constitutionality of the Royalty Adjustment Act of October 31, 1942, Public Law 768 (35 USC 89, et seq.) (R. 110). The Attorney General, in response to such certification, filed a petition in the name of the United States of America for leave to intervene.

April 18, 1944, the case was again called for hearing before the Third Circuit Court of Appeals, the hearing being directed solely to the question of the constitutionality of Royalty Adjustment Order No. W-3 and Public Law 768, on briefs and argument by the Assistant Attorney General, the Honorable Francis M. Shea for the United States, and on briefs and argument by counsel for petitioner and respondent, respectively.

August 7, 1944, the Third Circuit Court of Appeals filed its opinion, by Circuit Judge Goodrich, holding *inter alia* that the Act of October 31, 1942, Public Law 768, provided for "a taking of private property for public use" (R. 116-117); that such taking was in pursuance of the war power of the United States (R. 117); that the statute could constitutionally be applied to royalties which had accumulated prior to the statute (R. 118); and that "the statute is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" (R. 120).

The Court then directed that Paragraph 5 of the judgment of the District Court, from which petitioner had duly filed its appeal, be vacated and the

> "cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable

> controversy again exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot" (R. 120-121).

September 7, 1944, petitioner filed its petition for rehearing (R. 122-129) with the Third Circuit Court of Appeals, showing that an affidavit (dated August 17, 1943, and filed in said Court by respondent Timken in support of its motion to dismiss petitioner's appeal therein) by John E. Gallagher, the patent attorney in charge of the Patent Department of respondent, The Timken-Detroit Axle company, stated

> "* * * our records show that all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of the Ruggles and Smith patent 2,173,044, have been manufactured and sold directly or indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; * * *". (R. 60)

In its petition for rehearing, petitioner urged that if royalties had not been charged to the Government on any of the transfer cases involved in the litigation, *there could be no public interest in any of the royalties*, i.e., the money adjudged by the District Court to be due and payable by respondent, The Timken-Detroit Axle Company, to petitioner, Alma Motor Company, and particularly the transfer cases sold by Timken to the Government prior to July 28, 1943, the date of issuance of the Royalty Adjusfment Order No. W-3, and specifically the transfer cases designated as the T-79 cases involved in

the merits of the appeal to the Third Circuit Court of Appeals in this case.

October 2, 1944, the Third Circuit Court of Appeals denied petitioner's petition for rehearing without opinion (R. 130) and made a slight modification of its order filed August 7, 1944 (R. 129-130).

4. SPECIFICATIONS OF ERRORS

The Third Circuit Court of Appeals erred:

(1) In permitting its jurisdiction to be ousted by the Order of an Administrative Board of the Executive Department.

(2) In deciding that the rights acquired by a judgment creditor prior to the issuance of an Administrative Order under Public Law 768 to money held by a District Court to be due and payable prior to the passage of said Law could be taken away by the passage of such Act.

(3) In holding that the statute (Public Law 768) may constitutionally be applied to royalties which had become due and payable prior to the passage of said statute.

(4) In deciding that the Federal right of eminent domain may be constitutionally exercised under the war power of Congress to justify the sequestration or seizure by the Government of mere money due from one private person to another private person.

(5) In holding that the Federal right of eminent domain may be constitutionally exercised to justify the

seizure or sequestration of mere money in the absence of any finding in the particular case for necessity for the taking.

(6) In holding that the Royalty Adjustment Order No. W-3 authorized the taking of private property for public use, in the absence of any showing or finding that the money directed to be paid by said Order to the Treasurer of the United States had ever been charged, or was chargeable to, the United States and despite a contrary showing in the record that the money due as royalties had never been so charged to the United States.

(7) In not holding that there was a taking of private property for private use in violation of petitioner's constitutional rights.

(8) In not holding as unconstitutional, as a denial of due process of law, the provisions of Public Law 768 which make the sole and exclusive remedy by a creditor against his debtor under a patent royalty contract, a suit against the Government in the legislative Court of Claims, and authorizes a defense by the Government to the contractual obligation, which defense was non-existent at law to the debtor prior to the passage of such Act.

(9) In not holding as unconstitutional, as a denial of due process of law, Royalty Adjustment Order No. W-3, allegedly issued pursuant to the Act of October 31, 1942 (Public Law 768), when by its opinion in this case the Court in effect held said Order destroyed the right of a judgment creditor to proceed against his judgment debtor with pending litigation in the constitutional Federal courts and compels the judgment creditor to institute a new suit against a different defendant, namely the Government, with a different defense, non-existent at law to the

debtor prior to the passage of such Act and in a different tribunal, the legislative Court of Claims.

(10) In not holding that an Order of an Administrative Board of the Executive Department which in effect holds invalid a duly issued United States Letters Patent is unconstitutional as a usurpation of a purely judicial prerogative by such Administrative Board.

(11) In not holding that an Order of an Administrative Board of the Executive Department, holding a duly issued United States Letters Patent invalid, which Order was issued as a result of a hearing, notice of which did not correspond to the subject matter examined into at such hearing, is unconstitutional as a denial of due process of law under the Fifth Amendment to the Federal constitution.

(12) In not holding that an Order issued by an Administrative Board of the Executive Department, holding invalid a duly issued United States Letters Patent, is unconstitutional when such Order was issued as a result of a hearing at which no evidence was introduced bearing on the question of invalidity.

(13) In not holding that an Order of an Administrative Board of the Executive Department, holding invalid a duly issued United States Letters Patent, is unconstitutional when such Order was issued as a result of a hearing, the Transcript of the Proceedings of which show that such holding of invalidity was based upon a mere opinion of an executive officer of the Government.

(14) In directing that Paragraph 5 of the judgment entered by the District Court in this cause be vacated.

(15) In directing that the cause be remanded to the District Court with directions to proceed no further therein.

(16) In directing that the District Court may vacate all or any part of the remainder of the District Court's judgment and dismiss the complaint as moot.

5. SUMMARY OF ARGUMENT

The argument is believed to be sufficiently summarized by the following points under which the argument is presented and subdivided.

Point 1. The independence of the Federal judiciary must be preserved and the jurisdiction of the Federal courts cannot constitutionally be ousted by an arbitrary Order of an Administrative Board.

Point 2. Public Law 768 insofar as it authorized the issuance of Royalty Adjustment Order No. W-3 is invalid and unconstitutional as retroactive and as a denial of due process of law.

Point 3. Public Law 768, by making the sole and exclusive remedy of a licensor for recovery of royalties due under a patent license contract a suit, not against the licensee, but against a different defendant, the United States in the Court of Claims with a new defense not available to the licensee, is unconstitutional as a denial of due process of law.

Point 4. As Public Law 768 permits a person to be deprived of property without providing for a full and impartial hearing with due notice thereof, it is unconstitutional as a denial of due process of law.

Point 5. As Royalty Adjustment Order No. W-3 was based on a holding of invalidity of a duly issued

United States Letters Patent, which holding was predicated upon a mere opinion of an executive officer, Public Law 768 insofar as it authorized the issuance of said Order is unconstitutional as a denial of due process of law.

Point 6. Neither Public Law 768 nor Royalty Adjustment Order No. W-3 is a constitutionally valid exercise of the Federal right of eminent domain.

Point 7. Royalty Adjustment Order No. W-3 is invalid because the Order affected the payment of royalties not charged or chargeable to the United States and hence not within the purview of Public Law 768 and the latter is unconstitutional as authorizing the issuance of such Order in contravention to the due process of law.

6. ARGUMENT

Point 1. The Independence of the Federal Judiciary Must be Preserved and the Jurisdiction of the Federal Courts Cannot Constitutionally be Ousted by an Arbitrary Order of an Administrative Board.

Not since *Marbury v. Madison* (1 Cr. 137) has this Court had presented to it questions of greater or more far-reaching public importance than presented by the instant case, one of the most outstanding of which is,—shall the independence of the Federal judiciary be preserved? We have not been able to find any case wherein the question has been more squarely presented than in the instant one.

Here we have a case wherein an action was instituted in the United States District Court for the District of Delaware under the Declaratory Judgment Act (Sec.

274-d Judicial Code; 28 U.S.C. 400) by the respondent, The Timken-Detroit Axle Company, on January 23, 1941. Respondent sought to have the District Court declare petitioner's patent No. 2,173,044 (issued to Ruggles and Smith, September 12, 1939) invalid; that certain transfer cases manufactured by respondent did not come within the claims of the patent and that, therefore, respondent was not bound to pay certain royalties, provided for by the contract between the parties, to petitioner Alma. Alma filed an Answer and counter-claim in the District Court, seeking judgment for damages because of the plaintiff's failure to pay the royalties provided for by the license contract. The Federal District Court clearly had jurisdiction over the subject matter.

After a full trial on the merits in open court, the District Court rendered its opinion on September 23, 1942, holding that respondent, Timken, was estopped to contest the validity of the patent and that the respondent should have paid royalties to petitioner on certain of the transfer cases manufactured by respondent (*supra* p. 8-9).

Although formal judgment was not entered in the District Court until December 2, 1942, the entry of the judgment was a mere formality for the purpose of carrying into effect the disposition of the case as made by the District Court in its decision of September 23, 1942; the date of entry of the judgment being important only as marking the date from which the time for appeal would run.

More than a month after the District Judge had fully passed on the merits of the controversy and determined the rights of the parties, Public Law 768 became effective on October 31, 1942. More than three months after the date when the controversy was decided by the District

Court, the office of the Chief of Ordnance of the War Department on December 30, 1942, served a notice upon petitioner under Public Law 768 that royalties being paid under the license contract between the parties were "believed to be unreasonable or excessive" and that no further royalties be paid until the making of an Order subsequently to be issued fixing and specifying the rates or amount of royalties to be paid.

On February 27, 1943, petitioner filed an appeal to the Third Circuit Court of Appeals from a part only of the judgment of the District Court. Respondent filed no appeal from the judgment of the District Court within the time limit provided by law and hence that part of the judgment, from which petitioner had likewise filed no appeal, became final.

On July 28, 1943, the War Department issued Royalty Adjustment Order No. W-3 (R. 93, 97) which directed respondent to pay no further royalty to the licensor.

On August 25, 1943, respondent filed a motion that petitioner's appeal in the Third Circuit Court of Appeals be dismissed because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768. The United States Government filed an *amicus curiae* brief in support of respondent's motion to dismiss. The Court of Appeals refused to consider the case on the merits of petitioner's appeal from the judgment of the District Court and instructed counsel for petitioner to assert petitioner's position with respect to the constitutionality of Public Law 768. Petitioner attacked the constitutionality of the law, and, as a result, the United States under the Act of August 24, 1937 (28 U.S.C. 401) intervened for the purpose of supporting the constitutionality of the Act.

As respondent set up Public Law 768 as a defense to its payment of royalties, held by the District Court to be due petitioner under the license contract between the parties, and as, moreover, both the Government and Timken urged Public Law 768 as grounds for dismissing the appeal, the constitutionality of the law is placed squarely before this Court in view of the ruling made by it in its recent decision, *Coffman v. Breeze Corporations, Inc., et al.* (65 S. Ct. 298).

The Circuit Court of Appeals by its decision herein and particularly by its Order (R. 121) under the terms of which it remanded the case to the District Court

> "with directions to proceed no further therein unless and until it shall appear to the court that a justiciable controversy again exists between the parties, arising out of the facts set forth in the Complaint, except that the court may if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the Complaint as moot."

in effect ruled that Royalty Adjustment Order No. W-3 issued July 28, 1943, by an Administrative Board of the Executive Department not only completely ousted its jurisdiction, which had attached on February 27, 1943 and prevented it from considering the case which was properly before it, but also said Order rendered nugatory that part of the judgment of the District Court, entered December 2, 1942, which had become final because of Timken's failure to appeal therefrom.

Although the Court of Appeals in its opinion did not directly rule that its jurisdiction was ousted by Royalty Adjustment Order No. W-3 and Public Law 768, its action in remanding the case to the District Court without pass-

ing on the merits of petitioner's appeal was a clear and unequivocal relinquishment of the court's jurisdiction and tantamount to a direct holding that the said Order and Public Law 768 not only relieved the Court of the clear judicial duty which rested upon it to consider and determine the merits of petitioner's appeal, but that said Order and Law deprived the court of the judicial power so clearly conferred upon the United States constitutional courts by Sections 1 and 2 of Article III of the Constitution of the United States.

Likewise the action of the court in remanding the case to the District Court with the direction or mandate to the District Court that it should proceed no further in the case was tantamount to a direct ruling that Royalty Adjustment Order No. W-3, issued by an Administrative Board of the Executive Department, and Public Law 768, had the force and effect of vitiating and rendering nugatory the judgment of the District Court which had become final.

Article III of the Constitution provides:

> "Section 1. The judicial Power of the United States shall be vested in one supreme Court and in such inferior courts as the Congress may from time to time ordain and establish. • • •
>
> Section 2. The judicial Power shall extend to all cases arising under this Constitution, the laws of the United States, and • • • — to controversies • • • —between citizens of different states, — • • •."

There can be no question but that the case presented by petitioner's appeal to the Third Circuit Court of Appeals was of the type to which the judicial power specifically extends under the Constitution. The case was clearly

one arising under the laws of the United States, viz. the Declaratory Judgment Act, Judicial Code, Sec. 274-d (28 U.S.C. 400), the Patent Laws of the United States, Judicial Code, Sec. 24, Par. 1 and 7 (28 U.S.C. 41) and Judicial Code, Sec. 128 (28 U.S.C. 225). Yet, the court apparently not realizing that the arguments of the respondent, Timken, and the Government were striking at the very heart and foundation of one of the strongest bulwarks of American civil liberties—the independence of the Federal judiciary not only supinely relinquished its jurisdiction, but, in effect, held that a purely Administrative Board of the Executive Department had far greater powers than a Federal Court of Appeals.

Although Paragraph 5 of the Judgment of the District Court had become final because of respondent's failure to appeal therefrom and therefore the Court of Appeals had no power to review that part of the judgment below the Court of Appeals, in effect, reversed the entire judgment below by instructing the District Court to proceed no further in the case, or, in the alternative, if the court below wished to do so, that it could dismiss the Complaint as moot. While the Order of the Court of Appeals does not specifically mention Royalty Adjustment Order No. W-3, nor Public Law 768, it is clear that the court's Order, based on its decision upholding the validity of Public Law 768 and said Order, imports to them greater and more far-reaching powers than would be possessed by the Court of Appeals itself.

During the proceedings below, the argument was made that the Court of Claims Act of 1910 (36 Stat. 851, 35 U.S.C. 68) as amended by the Act of 1918 (40 Stat. 705, 35 U.S.C. 68) were the prototypes of Public Law 768. The Court of Appeals apparently was swayed by these argu

ments for it relied heavily on these Acts and certain decisions of this court in interpreting them in its attempt to justify several of its conclusions. These Court of Claims Acts, however, as we shall hereinafter show, are clearly distinct and different from Public Law 768, but if these Acts, and the decisions of this court thereunder, are to be considered as authority for the interpretation of Public Law 768, we submit the action of the Third Circuit Court of Appeals in relinquishing its jurisdiction to be clearly erroneous.

This court had before it a somewhat analogous situation in *Sperry Gyroscope Co. v. Arma Engineering Co.* (271 U. S. 232) wherein the District Court dismissed the Bill of Complaint for lack of jurisdiction. This court stating:

> "We are, now, concerned only with the power of the trial court to decide the controversy revealed by the record" (271 U. S. 234).

ruled

> "The true intent and meaning of the statute is not free from doubt; but certainly *there is nothing therein which shows any clear purpose to take away the power to decide.* It became the duty of the court below to consider and determine whether, in the circumstances stated, appellee was relieved of liability and permitted by the statute to do what otherwise would have constituted a violation of appellant's rights. There was jurisdiction." (271 U. S. 235, 236).

The action of the Circuit Court of Appeals in relinquishing its jurisdiction was also directly in conflict with the holding of Justice Marshall in *Smith vs. McIver* (9 Wheat. 532, 535) to the effect that

"the court which first has possession of the subject *must* decide it" (Italics ours).

In *Crowell vs. Benson* (285 U. S. 22) a matter of private rights was before this Court, namely the liability of one individual to another under the Longshoreman's and Harbor Worker's Compensation Act of March 4, 1927 (44 Stat. 1424, 33 U.S.C. Secs. 901-950). In considering the question of the maintenance of the judicial power under the Constitution, Chief Justice Hughes said:

"In relation to these basic facts, the question is not the ordinary one as to the propriety of provision for administrative determinations. Nor have we simply the question of due process in relation to notice and hearing. It is rather a question of the appropriate maintenance of the federal judicial power in requiring the observance of constitutional restrictions. It is the question whether the Congress may substitute for constitutional courts, in which the judicial power of the United States is vested, an administrative agency—in this instance a single deputy commissioner—for the final determination of the existence of the facts upon which the enforcement of the constitutional rights of the citizen depend. The recognition of the utility and convenience of administrative agencies for the investigation and finding of facts within their proper province, and the support of their authorized action, does not require the conclusion that there is no limitation of their use, and that the Congress could completely oust the courts of all determinations of fact by vesting the authority to make them with finality in its own instrumentalities or in the executive department. That would be to sap the judicial power as it exists under the Federal Constitution, and to establish a government of a bureaucratic character alien to our system, wherever fun-

damental rights depend, as not infrequently they do depend, upon the facts, and finality as to facts becomes in effect finality in law" (285 U. S. at pp. 56-7)*.

The action of the Third Circuit Court of Appeals in this case is, we believe, without precedent. Surely there has never been another case wherein a Federal Court has ruled that a mere administrative board of the Executive Department could constitutionally be granted the power to issue an order of such magnitude as *to oust the jurisdiction* conferred upon the federal courts by the Constitution of the United States.

We have been unable to find any such case nor have we found any case wherein the order of an administrative board has been held *paramount to a judgment* of a federal court. As the War Department's assertion of invalidity of the Ruggles and Smith patent 2,173,044, which by the judgment of the District Court, respondent Timken was estopped to deny, and the issuance of Royalty Adjustment Order No. W-3 was, by the averments in the affidavit of John E. Gallagher "based on the art of record in this litigation" (R. 60) and the contentions of respondent Timken that said patent "was invalid in view of the prior art relied upon in this litigation" (R. 61), Royalty Order No. W-3 has been, by the order of the Court of Appeals, given the force and effect of overruling the en-

*The Court, however, in *Crowell v. Benson* in recognition of the cardinal rule applied by it, that when a serious doubt as to the constitutionality of a law is raised if "a construction of the statute is fairly possible by which the question may be avoided" the court will adopt it, held the law to be valid because a complete review *de novo* was had in the Federal District Court of the essential facts, viz., whether the injury occurred upon navigable waters and the fact of employment. 285 U. S. at p. 62.

tire judgment of the District Court, including Paragraphs 3 and 4 thereof (R. 49, 50) which had become final.

The decision of the Court of Appeals in upholding the constitutionality of Public Law 768 and the validity of Royalty Adjustment Order No. W-3, and in giving the order such scope as, in effect, to overrule the judgment of the District Court, is directly *contra* the following rulings of this court

> "* * * inasmuch as the judgment in the trial court was rendered, as we have seen, prior to the repealing act, * * * the right acquired by a judgment creditor was not and could not constitutionally be taken away";
>
> *McCullough vs. Virginia*, 172 U. S. 102, at 125.
>
> "* * * the private rights of parties which have been vested by the judgment of a court cannot be taken away by subsequent legislation, but must be thereafter enforced by the Court regardless of such legislation."
>
> *Hodges v. Snyder*, 261 U. S. 600, at 603.

See also:

> *Coombes v. Guest*, 285 U. S. 434;
>
> *Ettor v. Tacoma*, 228 U. S. 148.

While it is true the above cases involve the prohibition placed upon the States by Article I, Section 10 of the Fourteenth Amendment to the Constitution, nevertheless the rule of those cases, we submit, applies fully to the situation in the present case. However, this court stated

> *"that Congress cannot withdraw from judicial cognizance any matter which from its nature is the subject of a suit at the common law or in equity."*

Murray's Lessee, et al. vs. Hoboken Land Imp. Co., 18 How. 272.

If Congress cannot withdraw from judicial cognizance any matter which is the subject of a suit, it cannot, any more than a State Legislature, pass a law which vitiates a judgment already entered, or pass a law which gives a purely administrative board of the Executive Department greater authority than that held by an Appellate Federal Court under the judicial power conferred on such court by the Constitution of the United States.

We believe the action of the Third Circuit Court of Appeals to have been wholly erroneous in relinquishing its jurisdiction and in refusing to act upon the merits of a case over which it clearly had jurisdiction, because Public Law 768, like the Court of Claims Act of 1910, has nothing therein which shows any clear purpose to take away the power to decide (*Sperry Gyroscope Co. v. Arma Engineering Co., supra*). Likewise Public Law 768 fails to indicate any purpose that it, or any order issued under it could or should overrule a judgment already entered. Neither does the Law reveal any intention that it be used to oust the jurisdiction of a Federal Court over litigation pending before it. If not erroneous, however, the interpretation and the far-reaching effect given by the Third Circuit Court of Appeals to Royalty Adjustment Order No. W-3 and Public Law 768, clearly compel a holding by this court that Public Law 768 is invalid and unconstitutional. Otherwise the much vaunted independence of the federal judiciary has become a sham and a hollow mockery.

Point 2. Public Law 768 Insofar as it Authorized the Issuance of Royalty Adjustment Order No. W-3 is Invalid and Unconstitutional as Retroactive and as a Denial of Due Process of Law.

The record here establishes that during the period from September 12, 1939, the date of issuance of the Ruggles and Smith patent in suit and up to and including September, 1942, one month before Public Law 768 became effective on October 31, 1942, respondent Timken had manufactured and sold over 15,000 of the T-32-13 type transfer cases (see Schenck affidavit, R. 105). These were the cases on which the District Court decreed (R. 49-50) Timken should have paid Alma royalties in accordance with the license agreement. The record also shows that up to and including September, 1942, respondent Timken made and sold over 80,000 of the T-79 cases (R. 105) involved in the merits of petitioner's appeal to the Third Circuit Court of Appeals. As the Third Circuit Court of Appeals refused to consider the merits of the appeal and as it ordered the District Court to proceed no further with the case and dismiss the complaint, it clearly gave Royalty Adjustment Order No. W-3 and Public Law 768 wide-sweeping, retroactive effect, not only as to material furnished to the Government prior to the effective date of the notice of December 30, 1942, and prior to the effective date of the Order of July 28, 1943, but also prior to October 31, 1942, the effective date of the Royalty Adjustment Act. An examination of the bill S 2794 (which as finally enacted became Public Law 768) shows that Section 7 of the proposed act as originally introduced was framed in such a way that the act would be clearly non-retroactive, as it provided:

> "Sec. 7. This act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment or materials deliverable to the Government from and after the date of the approval hereof." (Ap. 1, p. 7)*

This section was amended so that the words "the date of the approval hereof" immediately following the word "after" at the end of the section were stricken and "the effective date of this act" substituted in lieu thereof (Ap. 1, p. 8). In addition, there was added to Section 7 the following new sentence:

> "This act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this act" (Ap. 1, p. 8).

The addition of this last quoted sentence clearly made the Act retroactive and made it applicable to supplies, equipment and materials delivered prior to the effective date of the Act. The language of the Act, as finally amended (Ap. 5, p. 18), is such that it applies to all royalties, irrespective of the date when they became due and which had not been paid by the licensor on the date of the notice given under the Act. In the instant case this

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*For the convenience of the Court we are filing a number of sets of a separately bound volume entitled "Appendix to Petitioner's Brief" and containing the following:

(1) Copy of Public Law 768.
(2) Hearings Before Committee on Patents * * * (Public Law 768).
(3) Report of House Committee on Patents.
(4) Reprint from Congressional Record, Senate Proceedings, Oct. 15, 1942.
(5) Reprint from Congressional Record, House Proceedings, Oct. 22, 1942.

As each of the above has its own page numbers, citations herein to them will be made as follows: Ap. 1, p. ... Ap. 2, p. ... etc.

date was December 30, 1942. On that date respondent Timken had withheld payment of royalties for transfer cases delivered as far back as 1939. Therefore as the provisions of the Act and Royalty Adjustment Order No. W-3 are clearly retroactive they were so construed by the Third Circuit Court of Appeals and were extended by it back to 1939 to cover all the transfer cases in issue.

As Paragraph 4 of Royalty Adjustment Order No. W-3 directs the licensee (Timken) "to reduce the contract price of all supplies * * * which have been delivered * * * to or for the War Department * * * but for which the licensee has not on the date of this Order received payment" the Order specifically exempts Timken from making any reduction as to any transfer cases for which Timken had received payment prior to July 28, 1943, the date of the Order. As the license contract (Exhibit C, R. 89) required Timken to make returns on "Transfer Cases" manufactured and/or sold, the conclusion is inescapable that all of the cases enumerated in the Schenck affidavit (R. 105) were ones for which Timken had received payment. Although the Order was before the Court below, it apparently made no study of paragraph 4 thereof, but was content to base its decree on paragraph 2 of the Order. The situation in this respect is, we submit, a most aggravated one. Respondent Timken, after thorough investigation, entered into the license contract and agreed to pay Alma a royalty which Timken's patent attorney, when on the stand in the District Court, repeatedly admitted was a very low royalty and which the contract shows was but 50c for each transfer case (R. 89). As the transfer cases sold for approximately $100.00 each, the royalty therefore was but ½ of 1% (R. 69). Timken attempted to welch upon its contract and brought the declaratory judgment action. It attempted to get out

from under the contract by attacking the validity of this patent which, as a matter of law, it was estopped to deny. It was defeated in its purpose. By the admission of its patent attorney it never charged any royalty to the Government on any of the transfer cases involved in the present controversy (R. 60); yet it claims the benefit of retrospective provisions of Public Law 768 and Royalty Adjustment Order No. W-3 to escape payment of the money which the District Court adjudged it owed petitioner. The Circuit Court of Appeals, by its action, gives the Order and Act retroactive effect which enables respondent Timken to escape its obligations and permits them to be used to permit the private enrichment of Timken at Alma's expense.

While, as we have shown, Public Law 768 as administered in the instant case through the issuance of Royalty Adjustment Order No. W-3, is flagrantly retroactive, does its retroactivity, as it applies here, constitute a denial of due process of law? Let us consider the law first from this angle, leaving the question of due notice and hearing to be hereinafter discussed more fully.

Mere retroactivity alone of a law does not necessarily render it obnoxious to constitutional validity, for Congress may enact regulations dealing with, or impose restrictions upon, subject matter in a proper exercise of its granted powers, even though such regulations or restrictions may have concomitant adverse affect upon private contracts that depend upon the subject matter regulated.

The cases cited in the opinion below (R. 118) are examples of the above but none of them are even pertinent to, let alone controlling on, the situation here. Although Congress has the power under Article I, Section 8 of the Constitution:

> "To promote the Progress of Science and the useful arts, by securing for limited times to Authors and Inventors, the exclusive Right to their respective Writings and Discoveries;"

Public Law 768 was not enacted in furtherance of such power. It makes no pretense of being an enactment under the patent power of Congress, for it states:

> "* * * it is enacted * * * to aid in the successful prosecution of the War."

We believe Public Law 768 to be without precedent, as a law which directly provides for "impairing the Obligation of Contracts" specifically prohibited to the states by Article I, Sec. 10, Par. 1 of the Constitution. Indeed, it legislates directly upon a subject—the rights of the parties under a patent license or royalty contract—uniformly held by the courts to be a subject not coming under the purview of the patent laws or under the jurisdiction of the Federal courts except in cases of diversity of citizenship involving the requisite jurisdictional amount of money (see 28 U.S.C.A. §371, Note 104, and cases cited therein).

This court as far back as *Osborne v. Nicholson*, 13 Wall. 654, fully considered the question of the great danger that would result if not only a mere legislative act, but an amendment to the Constitution of the United States could be made retroactive. The language of this Court in that case is so pertinent to the situation here presented that we feel we can do no better than quote it as follows:

> "* * * But, without considering at length the several assumptions of the proposition, it is a sufficient answer to say that when the 13th Amendment to the Constitution of the United States was adopted, the rights of the plaintiff in this action had become legally and completely vested. Rights ac-

quired by a deed, will or contract of marriage, or other contract executed according to the statutes subsequently repealed subsist afterwards, as they were before, in all respects as if the statutes were still in full force. This is a principle of universal jurisprudence. It is necessary to the repose and welfare of all communities. A different rule would shake the social fabric to its foundations and let in a flood tide of intolerable evils. It would be contrary to 'the general principles of law and reason', and to one of the most vital ends of government. The doctrines of the repeal of statutes and the destruction of vested rights by implication, are alike unfavored in the law. Neither is to be admitted unless the implication is so clear as to be equivalent to an explicit declaration. Every doubt should be resolved against a construction so fraught with mischiefs. There is nothing in the language of the amendment which in the slightest degree warrants the inference that those who framed or those who adopted it intended that such should be its effect. It is wholly silent upon the subject. The proposition, if carried out in this case, would, in effect, take away one man's property and give it to another. And the deprivation would be 'without due process of law.' This is forbidden by the fundamental principles of the social compact, and is beyond the sphere of the legislative authority both of the States and the Nation.'" 13 Wall. 654 at 662-3.

How apposite is this language of this Court to the situation here presented! There is no explicit declaration in the Act of October 31, 1942, "which in the slightest degree warrants the inference that those who framed, or those who adopted, it intended" that it should effect contract rights which "had become legally and completely vested" prior to its passage.

This Court has uniformly held that retroactive legislation by Congress renders such legislation invalid as arbi-

trary and capricious. *Nichols v. Coolidge*, 274 U. S. 501; *Blodgett v. Holden*, 275 U. S. 142; *Untermeyer v. Anderson*, 276 U. S. 440.

One of the cases relied upon by the Court below is *Richmond Screw Anchor Co. v. United States* (275 U. S. 331), wherein this Court, in reversing a decision of the Court of Claims which held the provisions of R.S. 3447, prohibiting assignments of claims against the Government applied to claims under the 1918 Act, stated:

> "* * * *This result, i. 3477 Rev. Stats. applies and avoids the assignment, would seem to raise a serious question as to the constitutionality of the Act of 1918 under the Fifth Amendment to the Federal Constitution.*" (275 U. S. 331 at 345.)

Neither the 1910 nor the 1918 Act is retroactive. For example, the 1910 Act provides "the Court of Claims shall not entertain a suit * * * based on the use or manufacture by or for the United States of any article owned, leased, used by or in possession of the United States *prior to June 25, 1910*"—the effective date of the Act. The 1918 Act is similar, except that it reads "that said Court of Claims shall not entertain a suit * * * based on the use or manufacture by or for the United States of any article *heretofore* owned, leased, used by or in the possession of the United States."

Hence these Acts and the *Richmond* case, instead of supporting Public Law 768, augur a holding of its unconstitutionality as retroactive.

Completely disregarding all questions relating to the usurpation of its judicial power under the Constitution, the Third Circuit Court of Appeals held:

"The provision for recovery of compensation against the United States through suit in the Court of Claims is sufficient compliance with the constitutional provision for just compensation. *Crozier v. Krupp*, 224 U. S. 290 (1911); *Identification Devices v. United States*, 121 F. (2d) 895 (App. D. C. 1941), cert. den. 314 U. S. 615 (1941), 314 U. S. 587 (1942), reh. den. 314 U. S. 710, 714 (1941), 315 U. S. 779 (1942); *Pierce v. Submarine Signal Co.*, 25 F. Supp. 862 (D. C. Mass. 1939). This in itself would be enough to uphold the constitutionality of a statute upon this point. The constitutionality is not impaired by a provision for a conference or hearing prior to court action which, if satisfactory, amicably adjusts that which otherwise would take litigation to settle. Our conclusion is that the statute is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power. It simply goes the one step further to cover the exercise of that power in the field of patents, which had already been made by the Act of 1910, as amended. The provision of the law for compensation to the owner is within the constitutional requirement of due process of law" (R. 119-120).

Let us consider first what has been done in the instant case. Petitioner Alma, in the exercise of its constitutionally guaranteed rights, having established by judgment the justness of a portion of its claim for royalty payment against respondent Timken, and having, as the result of a full trial in the District Court, made a record for appeal which it duly filed in the Third Circuit Court of Appeals as to the remainder of its claim, is now confronted with a holding that completely nullifies the judgment it obtained, as well as denies its right to prosecute its perfected appeal for review by the judicial power under the Constitution. It is told that

> "The provision in the law for compensation to the owner is within the constitutional requirement of due process of law" (R. 120).

and that it

> " * * * is entitled to sue for whatever royalties it believes itself to be entitled" (R. 120).

We most respectfully, but nontheless vigorously, challenge the correctness of the statement "the provision for compensation to the owner is within the constitutional requirement of due process of law." Let us examine the Constitution. The Fifth Amendment provides that:

> "No person shall * * * be deprived of life, liberty, or property without due process of law; nor shall private property be taken for public use, without just compensation."

The constitutional compensation clause is separable and distinct from the due process clause. Manifestly either is complete without reference to, or the inclusion of, the other. So the fact that Public Law 768 provides for "compensation" to the owner is no answer to the question of whether the Law deprives a person of property without due process of law.

Let us now consider the meaning of the constitutional provision that no person shall be deprived of life, liberty or property without due process of law from the standpoint of the necessity that the due process shall occur prior to the deprivation.

Is it not perfectly clear that the obvious intendment of the Fifth Amendment is that the "due process of law" or "the law of the land" shall precede the deprivation? Or, as stated by the great Daniel Webster in the *Dartmouth College* case:

"By the law of the land is most clearly intended a law which hears before it condemns; which proceeds upon inquiry, and *renders judgment only after trial.* The meaning is that every citizen shall hold his life, liberty, property, and immunities, under the protection of the general rules which govern society. Everything which may pass under the form of an enactment is not therefore to be considered the law of the land.

If this were so, acts of attainder, bills of pains and penalties, acts of confiscation, acts reversing judgments, and acts directly transferring one man's estate to another, legislative judgments, decrees and forfeitures in all possible forms, would be the law of the land. Such a strange construction would render constitutional provisions of the highest importance completely inoperative and void. It would tend directly to establish the union of all powers in the legislature. There would be no general permanent law for courts to administer or men to live under. The administration of justice would be an empty form, an idle ceremony. Judges would sit to execute legislative judgments and decrees, not to declare the law or administer the justice of the country."

Dartmouth College v. Woodward, 4 Wheat. 519;

Can it be possible that the due process clause is satisfied by the greatly restricted right to sue afterwards, granted by Public Law 768 or, in the words of the Third Circuit Court of Appeals:

"Alma denied payment under the royalty agreement is entitled to sue for whatever royalties it believes itself to be entitled * * *"

This, however, is a constitutionally guaranteed right of Alma's which it exercised successfully, but which Public Law 768 specifically takes away.

It has been tritely said:

> "The constitutional validity of law is to be tested, not by what has been done under it, but what may, by its authority, be done."
>
> *Stuart v. Palmer*, 74 N. Y. 183, 188, 30 Atl. 289.

Any licensor under a patent royalty contract has a constitutional right to an action at law for damages for breach of contract and is guaranteed the right, under the provisions of the Seventh Amendment to a jury trial. These rights, however, are taken away by Section 1 of the Act and by the provisions which make the "*licensor's sole and exclusive remedy*" a suit in the Court of Claims. There is no right of jury trial in the Court of Claims which by the Act of February 13, 1925, c 229, 43 Stat. 936, is made the sole trier of facts. The alternative of suing in the District Courts is of no avail if, as here, the amount in controversy exceeds $10,000. Jud. Code 24 (20) 28 U.S.C.A. 41 (20). Therefore, if we test the constitutional validity of Public Law 768 by what may "by its authority be done," we find a full authorization for a denial of "the right of trial by jury" which the Seventh Amendment orders "shall be preserved."

Point 3. Public Law 768, by Making the Sole and Exclusive Remedy of a Licensor for Recovery of Royalties due Under a Patent License Contract a Suit, not against the Licensee, but against a Different Defendant, the United States, in the Court of Claims with a new Defense not Available to the Licensee, is Unconstitutional as a Denial of Due Process of Law.

Do the provisions of Sections 1 and 2 of Public Law 768 which make petitioner Alma's sole and exclusive

remedy a suit against the United States in the Court of Claims and which make available to the United States "any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement" constitute the "due process of law" contemplated by the Fifth Amendment? (R. 56-57).

The District Court in interpreting the license contract found that

> "The provision contained in Clause IV does not permit the licensee to contest the validity of the patent.* This point is settled by the decision of the Supreme Court of the (*sic*) *United States v. Harvey Steel Co.*, 196 U.S. 310" (R. 36).

It is important here to note that this Court in the *Harvey Steel Co.* case definitely held that the estoppel of a licensee to contest validity operates as fully against the Government as against a private party.

The rule which estops a licensee to attack the validity of a patent under which he is manufacturing is not a mere technicality of the patent law but is founded upon the salutary equitable principles of estoppel to the effect that one may not accept the benefits of a contract and at the same time deny the obligations thereof. It is a matter of common knowledge and indeed of common sense that no one ever agrees to pay as royalty any more than a fractional part of the savings effected, or profits expected, from the use of the invention. Ordinarily these savings or profits are in no way affected by the mere fact of the validity or invalidity of the patent, or to put it another way:

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*It also decreed as a matter of law "3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein." (Judgment (R. 49).

"Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. Moreover, we think that the defendants are estopped from alleging that invalidity." *Kinsman, et al. v. Parkhurst* (18 How. 289, 293).

During the trial in the District Court, in a colloquy between Judge Kirkpatrick and counsel for respondent Timken, the latter admitted that the Army wanted the Ruggles and Smith type of transfer cases "because it sold cheaper" while the court summed up the situation by stating:

"It is a matter of expense and production, simplicity, compactness and various other things."*

*(See pages 253a-254a of Defendant's Appendix, the printed volume of the record on the merits in the Court of Appeals certified to this court but not reproduced as a part of the "Transcript of Record" here; further citation to which herein will be made as follows: D.A. p. .....)

So the Government and the people of the United States who get the benefit of the savings due to the cheaper patented construction, as well as its other advantages, should as a matter of plain justice be no more entitled to attack the validity of the patent than respondent Timken.

Public Law 768, however, deprives petitioner, or any other licensor, of its right of action against the licensee, restricts it to suit against the United States and gives the United States the right to attack the validity of the patent—a defense not available to the licensee, and a defense which the District Court specifically decreed respondent Timken was estopped to make.

In *Lynch v. United States* (292 U. S. 571) a case involving the validity of an Act of Congress affecting life insurance policies issued by the Government in the last war, this Court considered the necessity of the legislation from the standpoint of public interest but held the provisions of the Fifth Amendment to be paramount as follows:

> "* * * Second. *The Fifth Amendment commands that property be not taken without making just compensation.* Valid contracts are property, whether the obligor be a private individual, a municipality, a State or the United States. Rights against the United States arising out of a contract with it are protected by the Fifth Amendment. *United States v. Central Pacific R. Co.*, 118 U. S. 235, 238; *United States v. Northern Pacific Ry. Co.*, 256 U. S. 51, 64, 67. *When the United States enters into contract relations, its rights and duties therein are governed generally by the law applicable to contracts between private individuals.*" 292 U. S. 571 at 579.
>
> "* * * Third. Contracts between individuals or corporations are impaired within the meaning of the Constitution whenever the right to enforce them by legal process is taken away or *materially lessened.*" 292 U. S. 571 at 580-1.
>
> "* * * Fourth. The question requiring decision is, therefore, whether in repealing 'all laws granting or pertaining to yearly renewable term insurance' Congress aimed at the right or merely at the remedy. It seems clear that it intended to take away the right; and that Congress did not intend to preserve the right and merely withdraw consent to sue the United States." 292 U. S. 571 at 583.

Public Law 768, like the act under consideration in the *Lynch* case, does not go merely to a change in the procedural remedy but strikes directly at the heart of a legal

right which, as shown by the hearings before the Committee on Patents, was pointed out to the Committee. No other conclusion can be reached but that it was the intent and purpose of the law *to destroy* the pre-existent legal right because that manifestly is the result of depriving a licensor of its right to sue the licensee, making the licensor's sole and exclusive remedy a suit against the United States and of giving to the United States a defense not available to the licensee.

We direct attention to the fact that the Court of Appeals carefully refrained from discussing, or even alluding to this point in its opinion. The only reference made by it to due process of law is contained in its strange and, we submit, strained construction of the Fifth Amendment as follows:

> "The provision of the law for compensation to the owner is within the constitutional requirement of due process of law" (R. 120).

Compensation, or the amount thereof, has nothing to do with due process of law, and the above holding, that it has, seems to us to be a suggestion that one of the most important fundamentals of the American Bill of Rights consistently recognized as an inalienable birthright of an American citizen is a mere matter of dollars and cents to be flaunted by Congress at will, and that under the American constitution the owner may be deprived of property without due process of law as long as provision for compensation is made.

This Court has repeatedly held a patent to be property entitled to the same legal protection as other property.

Seymour v. Osborne, 11 Wall 516;

Cammeyer v. Newton, 94 U. S. 225;

Jones v. Campbell, 104 U. S. 356;

United States v. Palmer, 128 U. S. 262.

It reiterated this in its recent decision in

Hartford Empire et al v. United States, 65 S. Ct. 373.

Obviously, petitioner's right to the money due as royalty under its license contract is equally a property right. Public Law 768 and Royalty Adjustment Order No. W-3 indubitably deprive petitioner of its property, the money long overdue, postpone indefinitely the right of recovery by relegating petitioner to a suit against the United States in the Court of Claims, and grant the Government a defense not available to respondent Timken. Meanwhile a cloud is cast upon plaintiff's title, because of the holding of invalidity, inherent in the Order, as to render the patent property worthless to petitioner, yet in no way affecting or deteriorating the value of its use—in profits to respondent Timken—and—in savings to the Government.

Can it possibly be said that this is not depriving petitioner of its property? Or that as long as petitioner still retains the title to the patent it has not been deprived of its property?

We believe these questions are completely answered in the negative by the following:

> "• • • The principles, then, upon which the process is based are to determine whether it is 'due process' or not, and not any considerations of mere

form. Administrative and remedial process may be changed from time to time, but only with due regard to the landmarks established for the protection of the citizen. When the government through its established agencies interferes with the title to one's property, or *with his independent enjoyment of it*, and its action is called in question as not in accordance with the law of the land, we are to test its validity by those principles of civil liberty and constitutional protection which have become established in our system of laws, and not generally by rules that pertain to forms of procedure merely. In judicial proceedings the law of the land requires a hearing before condemnation, and judgment before dispossession; but when property is appropriated by the government to public uses, or the legislature interferes to give direction to its title through remedial statutes, different considerations from those which regard the controversies between man and man must prevail, different proceedings are required, and we have only to see whether the interference can be justified by the established rules applicable to the special case. Due process of law in each particular case means, such an exertion of the powers of government as the settled maxims of law permit and sanction, and under such safeguards for the protection of individual rights as those maxims prescribe for the class of cases to which the one in question belongs." (Cooley's Constitutional Limitations, 5th Edition, pp. 435-436.)

If the constitutionality of Public Law 768 is to be controlled by the decisions of this Court interpreting the 1910 and 1918 Acts, again we refer to *Richmond Screw Anchor Co. v. United States, supra*, a case upon which the Circuit Court of Appeals relied as having particular pertinence to the question here under discussion, namely,

is Public Law 768 which specifically deprives a licensor—a patent owner—of its right of action against the licensee under a patent license contract for damages for breach of contract and makes the sole and exclusive remedy of the patent owner a suit against a different defendant, the United States, in the Court of Claims and gives to the United States a defense not available to the licensee, due process of law? This Court clearly indicated the contrary in the *Richmond Screw Anchor* case as follows:

> "* * * If now section 3477 applies and these assignments are rendered void, the effect of the Act of 1918 is to take away from the assignee and present owner not only the cause of action against the Government, but also to deprive it of the cause of action against the infringing contractor for injury by his infringement." 275 U. S. 331 at 345.

So if such decisions are controlling, a holding by this Court that Public Law 768 is unconstitutional seems to us to be inescapable.

Again applying the 1910 Act and its decisions to Public Law 768, the Court of Appeals stated:

> "* * * Furthermore, we have authority which supports appropriations in the patent field in the decisions, already cited, applying the 1910 Act. Our only new question here, therefore, is the public use aspect of the extension by legislation to include the taking over of license agreements as well as patent rights not subject to such agreements" (R. 117).

If, as the Court of Appeals assumed, the only new question here involved is the "taking over of license agreements" by the Government, the very recent holding of

this Court in *United States v. General Motors Corp.*, 65 S. Ct. 357, surely must apply:

> "When the sovereign exercises the power of eminent domain it substitutes itself in relation to the physical thing in question in place of him who formerly bore the relationship to that thing which we dominate ownership."

In other words, the Government, if it takes over the license, must step into the shoes of the licensee so that the estoppel with respect to contesting the validity of a licensor's patent which this Court held in *United States v. Harvey Steel Co.*, 196 U. S. 310, applies to the Government, as well as to a private party, must also apply. If the above cases do not apply it could only be as a result of a holding here that Congress may legislate in contravention to the rules laid down by this Court in interpreting the law of eminent domain. To put the matter another way, the Court of Appeals held Public Law 768 to be an exercise of the right of eminent domain, yet the clear intent and purpose of the law violate cardinal rules that control or limit the proper exercise of the right of eminent domain.

Point 4. As Public Law 768 permits a person to be deprived of property without providing for a full and impartial hearing with due notice thereof, it is unconstitutional as a denial of due process of law.

As we have seen, due process of law clearly contemplates a law which hears before it condemns with due

notice of hearing and that the notice and hearing should correspond.

As set forth in the Schenck affidavit (R. 103-5), the only notices given to petitioner prior to the hearing of February 8, 1943, (conducted by the Board consisting of the two officers of the Ordnance Department, Major Wayne L. Cockrell and Lieutenant-Colonel C. E. Herrstrom, and Lieutenant-Commander Ralph L. Chappell, U.S.N.R.), were the communications Exhibits E, G and H. Exhibit E (R. 106-7), the notice of December 30, 1942, merely states that the royalties "now being paid by the United States under Ruggle and Smith patent No. 2,173,044 are believed to be unreasonable or excessive." The letter of January 13, 1943, Exhibit G, is no more enlightening, as all that it states is "an opportunity will be afforded the company to present at a hearing any facts or circumstances which may have a bearing upon the royalties, if any, to be paid under Public Law 768—77th Congress." The real notice of hearing, the communication dated January 28, 1943, Exhibit H, merely makes reference to "the notice dated December 30, 1942, advising that the royalties being paid under Ruggles and Smith patent No. 2,173,044 are believed to be unreasonable or excessive."

As will be seen from a perusal of the "Transcript of Proceeding" (R. 61-86), the hearing was not devoted at all to the question of whether or not the royalty of $50 was unreasonable or excessive for a transfer case selling at approximately $100, or merely one-half of one per cent. Apparently realizing that such royalty could not be properly attacked on such grounds in view of the repeated admissions of Timken's patent attorney Gallagher that this was a "very reasonable royalty" (D. A. 83a, 90a), "a

nominal royalty'' (D. A. 89a), the hearing was devoted entirely to a consideration of the question of the validity of the said patent No. 2,173,044. But even as to this there was no evidence adduced and no advance notice that the hearing was to be devoted solely to the question of validity, nor notice of any prior art that would be considered at the hearing. The hearing consisted mainly of an attack on the validity of the patent made by mere argument of counsel for the interested party, The Timken-Detroit Axle Company.

The purpose of due notice as an essential of due process of law under the provisions of the Fifty Amendment is, of course, that a party, whose rights may be affected by a hearing, may be fully apprised of the subject matter to be examined into at the hearing so that such party may not be taken entirely by surprise.

The question whether the hearing, conducted by the Army-Navy Administrative Board and directed solely to validity of the patent, which obviously did not conform to the notice thereof, resulted in a denial to the Alma Motor Company of due process of law, is fully answered by the following language of this Court:

> '' * * * 2. The Federal question is whether, in that court, with such jurisdiction, the defendants were denied due process of law. Under the 14th Amendment they were entitled to notice and an opportunity to be heard. That necessarily required that the notice and the hearing should correspond, and that the relief granted should be appropriate to that which had been heard and determined on such notice. For even if a court has original general jurisdiction, criminal and civil, at law and in equity, it cannot enter a judgment which is beyond the claim asserted, or which, in its essential char-

> "The hearing provided for * * * gives an opportunity for possible amicable adjustment between the Government agency and the patent owner. * * * The insertion into the law of a provision for a conference which conceivably could result in mutual satisfaction to Government and patent owner can hardly be unconstitutional when no such conference is necessary as a matter of constitutional right * * *" (R. 119).

Where does one find in the law anything which justifies the assertion that the hearing provided for by the Act was "for possible amicable adjustment" or for "a conference," or where does one find any such indication in the notice of December 30, 1942, Exhibit E (R. 106, 107) or the letter of January 13, 1943, Exhibit G (R. 108, 109) or the Notice of Hearing, Exhibit H, dated January 28, 1943 (R. 109, 110), all of which use exactly the same language —the language of Public Law 768:

> "* * * the licensor * * * may * * * present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalty, if any, to be determined, * * *"

The only advance information or indication obtainable from the formal notice of hearing of January 28, 1943 (Ex. H) as to the nature or scope of the hearing is that the royalties being paid under the patent "are believed to be unreasonable or excessive." No reason, however, for this belief is given in the notice, and certainly no indication of any belief that the patent was considered invalid, or that the mind of the Chief of Ordnance had been made up, and that it was his opinion that the patent was invalid, nor any indication of any evidence to show what such opinion was based upon. Even if it were true, as stated by the Court of Appeals, the hearing provided for

by the Act was for the purpose of giving an opportunity for possible amicable adjustment, or a "conference," a mere perusal of the Transcript of the Proceedings (R. 61 to 86, inc.). shows that no such opportunity was ever awarded petitioner or his counsel at the hearing. The statements made in the opinion of the Court of Appeals "that the results of the hearing "*do not bind,*" and are *not binding upon the patent owner* are utterly inexplicable in view of the action of the court in permitting its constitutional jurisdiction to be completely ousted by Royalty Adjustment Order No. W-3 and in directing the District Court to take no further action with respect to the judgment entered by the District Court long prior to the effective date of Order No. W-3. Can it be possible that, although the court considered the Order sufficiently binding to tie not only its hands, but the hands of the District Court, by some strange process of cerebration it reaches the conclusion that this does not result in binding the patent owner?

Point 5. As Royalty Adjustment Order No. W-3 was based on a holding of invalidity of a duly issued United States Letters Patent, which holding was predicated upon a mere opinion of an executive officer, Public Law 768, insofar as it authorized the issuance of said Order, is unconstitutional as a denial of due process of law.

We believe we have fully demonstrated that Public Law 768 and Royalty Adjustment Order No. W-3 result so manifestly in depriving a licensor of due process of law in contravention of the positive prohibitions of the Fifth

acter, is not responsive to the cause of action on which the proceeding was based.

"'Though the court may possess jurisdiction of a cause, of the subject matter, and of the parties, it is still limited in its modes of procedure, and in the extent and character of its judgments. It must act judicially in all things, and cannot then transcend the power conferred by the law. If, for instance, the action be upon a money demand, the court, notwithstanding its complete jurisdiction over the subject and parties, has no power to pass judgment of imprisonment in the penitentiary upon the defendant. If the action be for a libel or personal tort, the court cannot order in the case a specific performance of a contract. If the action be for the possession of real property, the court is powerless to admit in the case the probate of a will. . . . The judgments mentioned, given in the cases supposed, would not be merely erroneous: they would be absolutely void; because the court in rendering them would transcend the limits of its authority in those cases.' Windsor v. McVeigh, 93 U.S. 274, 282. See also Reynolds v. Stockton, 140 U.S. 254, 265-268. Barnes v. Railway, 122 U.S. 1, 14." *Standard Oil Co. of Indiana v. Missouri*, 224 U.S. 270 at 281-2.

The Court of Appeals in its opinion did not rule directly on the question of divergency between notice and hearing, but in discussing this phase of the case, stated

"• • • We think that the complaint in this respect misconceives both the nature of the hearing and the order which resulted therefrom. The hearing provided for is not in the nature of a complaint before a regulatory agency, but, instead, gives an opportunity for possible amicable adjustment between the Government agency and the patent owner. But the result does not bind the patent owner. By the express terms of the statute he is entitled

> to sue for what he believes himself to be entitled and the conclusions of the administrative officer are in no way binding upon him or the court. Provision for such a hearing is not constitutionally required; the 1910 Act, as amended, did not include it. The insertion into the law of a provision for a conference which conceivably could result in mutual satisfaction to Government and patent owner can hardly be unconstitutional when no such conference is necessary as a matter of constitutional right and when its results are not binding upon the patent owner if he later seeks compensation through court action (R. 119).

There are a number of things wrong with the conclusions of the Court of Appeals as contained in the above quotation. The most glaring is the statement

> "Provision for such a hearing is not constitutionally required; the 1910 Act, as amended, did not include it".

As the conclusion that "provision for hearing is not constitutionally required" is followed directly by the statement that "the 1910 Act, as amended, did not include it," it having been urged below that the Court of Claims Acts were the prototypes of Public Law 768 the Court below concluded that there was no necessity for a hearing under that Law. It may be that the Court was of the opinion that as Royalty Adjustment Order No. W-3 does not by its terms divest petitioner of its title to the Ruggles and Smith patent, petitioner was not deprived of its property. Perhaps the Court did not consider that the money held by the District Court to be due and payable to petitioner is property. Anything which interferes with an owner's right of possession to his property or his independent enjoyment of it comes within the purview of the prohibition of the Fifth Amendment. As stated by

this Court in its most recently decided case on this question:

> "The constitutional provision is addressed to every sort of interest the citizen may possess," *United States v. General Motors Corp.* (65 S. Ct. 357 at 359).

That this Court considers due process of law the right to possession of property, as well as to the title thereof is evidenced by the following:

> "Undoubtedly where life and liberty are involved, due process requires that there be a regular course of judicial proceeding which implies that the party to be affected shall have notice and an opportunity to be heard; so also where title, or *possession of property is involved.*" *Hagar v. Reclamation Dist.* 108 (111 U.S. 701).

Apparently the Court of Appeals by its statements that the result of the hearing did not bind the patent owners (R. 119) and that as "Alma, denied payment under the royalty agreement, is entitled to sue for whatever royalties it believes itself to be entitled and no administrative determination that it is not entitled to them will interfere in its suit" (R. 120), felt that as long as the law provides for any kind of a right to sue after a Royalty Adjustment Order is issued the order has no finality. Yet it gave the order a greater effect than the final judgment of the District Court and held the Public Law complied with due process of law. This holding is directly *contra* the following:

> "It never has been doubted by this Court, or any other so far as we know, that notice and hearing are preliminary steps essential to the passing of an enforceable judgment, and that they, together with a legally competent tribunal, having jurisdiction of

the case, constitute basic elements of the constitutional requirement of due process of law." *Powell v. Alabama* (287 U. S. 45).

The fact that the 1910 Act, as amended, did not contain any provision for a hearing has no bearing whatsoever upon the necessity for a hearing under Public Law 768. Although the proponents of Public Law 768 succeeded in convincing the Congress that the purpose of the Law was merely to supplement the 1910 Act, as amended, an analysis and comparison of the two statutes shows that there is nothing in common between them.

In the first place, the 1910 Act had solely to do with suits for infringement, based on *unlicensed* use or manufacture of patented inventions by the Government. By it the right of a patent owner theretofore limited to suit on an implied contract was extended by the Government consenting to be sued for a tort. The 1918 amendment to this Act further extended the patentee's rights by permitting suit against the United States in the Court of Claims for patent infringement by a contractor supplying material to the Government. Naturally, there was no provision in the 1910 Act, as amended, for any preliminary hearings because the Act clearly did not provide for any determination of the rights of any one by any Administrative or Executive Board. As there was no provision in the Act for any action of any kind by any Administrative Board, obviously the Act did not and could not contain any provision for a hearing by a non-existent Board. Nor did the 1910 Act, as amended, make any provisions for the issuance of any administrative orders, the result of which would deprive a citizen of any property right, for it provided for a suit in a duly constituted court of law.

The 1910 Act by its very title was

> "An act to provide additional protection for owners of patents of the United States, and for other purposes"

Public Law 768, however, has for *its* sole purpose not the "giving of additional protection for owners of patents," *Crozier v. Krupp* (224 U.S. 290, 302), but the taking away of vested rights of such owners as evidenced by what has happened to petitioner Alma's rights in the instant case. The assertion of the Court of Appeals in its opinion here that "provision for such a hearing is not constitutionally required;" is certainly contra the entire weight of authority and does not jibe at all with its own decision rendered May 27, 1943, *In Re Central R. Co. of New Jersey* (136 F. 2d. 633) from which we quote as follows:

> "* * * The right to notice and a hearing is one of ancient origin and by the due process clauses of the 5th and 14th amendments has been safeguarded to all against deprivation by the federal government and the states, respectively. The fact that the state had notice and appeared is not sufficient to satisfy the requirement of due process. It must also have been afforded an opportunity to be heard. Mr. Justice Field, in Windsor v. McVeigh, 1876, 93 U. S. 274, pages 277, 278, 23 L. Ed. 914, said: 'That there must be notice to a party of some kind, actual or constructive, to a valid judgment affecting his rights, is admitted. Until notice is given, the court has no jurisdiction in any case to proceed to judgment, whatever its authority may be, by the law of its organization, over the subject-matter. But notice is only for the purpose of affording the party an opportunity of being heard upon the claim or the charges made; it is a summons to him to appear and speak, if he has anything to say, why the judgment sought

> should not be rendered. A denial to a party, of the benefit of a notice would be in effect to deny that he is entitled to notice at all, and the sham and deceptive proceeding had better be omitted altogether. It would be like saying to a party: appear, and you shall be heard; and when he has appeared, saying: your appearance shall not be recognized, and you shall not be heard'." (at p. 639.)

How appropriate is the last sentence above quoted to the situation here, for when counsel for petitioner posed the question, that if the Royalty Adjustment Board were going to examine into the validity of the patent should it not be by the presentation of proper evidence, he was told by the Presiding Officer, Major Cockrell,

> "It is not proposed that there shall be any argument in this proceeding at all. * * * The opinion of the Chief of Ordnance is that the patent is invalid." (R. 73).

There is this difference, however, between the factual situation here and the suppositious case referred to in the above opinion. In the latter, it is assumed that the examining officer, in addition to refusing to hear the party, also refused to recognize his appearance. In the instant case, however, although an opportunity for a real hearing was not granted to petitioner or its counsel, the fact that petitioner appeared is, in effect, held by the court to justify the conclusion that Alma was granted a hearing such as would satisfy the requirements of due process of law, for the Court of Appeals stated:

> "Alma was notified of a proposed action under the statute with regard to its license agreement with Timken. It appeared by its President accompanied by counsel and was heard" (R. 119).

The Court further held:

Amendment that nothing more should be required. The facts in the present case, however, amply demonstrate the deprival of due process that resulted to petitioner even if the requirements of due notice and hearing had been complied with. It cannot be gainsaid that no evidence was introduced at the hearing bearing upon the question of validity of the patent nor opportunity afforded petitioner to contest the assertion of invalidity. The only thing that petitioner has ever had to go on with respect to the holding of invalidity was the statements of the Presiding Officer that "it is not proposed that there shall be any argument in this proceeding at all" and that "the opinion of the Chief of Ordnance is that the patent is invalid."

The situation in this case is, we submit, strictly analogous to that in *American School of Magnetic Healing v. McAnnulty* (187 U.S. 94), wherein this Court held a fraud order of the Postmaster General was not authorized by the statute under which the right to issue the order was claimed, because the law did not grant to the Postmaster General the power to issue fraud orders except in cases where there was evidence, that is, something more than the individual opinion of the Postmaster General. Here the only thing shown by the record to justify Order No. W-3 is an "opinion" of the Chief of Ordnance. There is not the slightest scintilla of evidence.

The matter of invalidating a patent has, of course, been before the Federal courts innumerable times. It is a cardinal rule of the patent law that when the validity of a patent is attacked by a defendant in an infringement suit, the defendant must plead, in advance of trial, any and all items of prior art upon which the defendant intends to rely to invalidate the patent in suit. This is

specifically provided for in R. S. 4920 (35 U.S.C. Sec. 69). This provision of the law, like the rule of estoppel is not a mere technicality of the patent law, but is based on sound, logical reasons. In the great majority of patent cases, the subject matter of the patent in suit is more or less technical so that drawings and disclosures of prior art structures require a great amount of time for study, analysis and comparison of the prior art structures with the structure of the patent. It is also a rule of the patent law that a patent is prima facie valid so that the plaintiff establishes a prima facie case of infringement by introducing the patent and evidence with respect to the infringing construction. From the very nature of a patent and its grant, this is also a purely logical common sense proceeding. How could petitioner know the belief expressed in the notice that the royalty is "unreasonable or excessive" was based in the instant case upon an "opinion" of the Chief of Ordnance that the patent was invalid? How could petitioner, not being aware of such opinion, proceed "to present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalty, if any, to be fixed?" What reasons could petitioner in the present case have presented either in person or in writing to establish the validity of his patent? The grant of a patent after a due examination is prima facie evidence of its validity. This is a legal presumption fully recognized by the courts. The only legal way its invalidity upon prior art can be established, is by suit in a Federal Court of competent jurisdiction by competent evidence of the art, notice of which, fully identifying the art to be relied upon, must be given in advance.

Surely the two little words "if any" in the statute and the notice cannot be construed as a notice to a licensor,

or in the instant case to petitioner, that the validity of his patent is in question. Positive evidence of validity of any patent can never be given. All the patentee can do when the validity of his patent is assailed is to show the prior art relied upon does *not* invalidate.

It is not sufficient at law, that an order of an Administrative Board, the effect of which is to deprive a person of property rights, be based upon a mere opinion of an executive officer. This was fully considered by this court in *Morgan v. United States* (298 U. S. 468) and *Morgan v. United States* (304 U. S. 1). In both of these cases the statute under consideration had to do with the fixing of maximum rates by the Secretary of Agriculture for buying and selling live stock. The statute provided for the issuance of an order by the Secretary of Agriculture and contained a provision that the Order be issued after full hearing.

This Court in the first *Morgan* case stated:

> "• • • There must be a full hearing. There must be evidence adequate to support pertinent and necessary findings of fact. Nothing can be treated as evidence which is not introduced as such. • • • Facts and circumstances must not be considered which should not legally influence the conclusion."
> 298 U. S. 468 at 480.

The following language of the Court in the second case is particularly pertinent to the situation here presented:

> "• • • The right to a hearing embraces not only the right to present evidence but a reasonable opportunity to know the claims of the opposing party and to meet them.
>
> "No such reasonable opportunity was accorded appellants. The administrative proceeding was in-

itiated by a notice of inquiry into the reasonableness of appellant's rates. No specific complaint was formulated and, in a proceeding thus begun by the Secretary on his own initiative, none was required. "* * * In the absence of any report by the Examiner or any findings proposed by the Government, and thus without any concrete statement of the Government's claims, the parties approached the oral argument.

"Nor did the oral argument reveal these claims in any appropriate manner. The discussion by counsel for the Government was 'very general.' * * * And the appellants had no further information of the Government's concrete claims until they were served with the Secretary's Order."

Holding that the hearing was fatally defective and the Order of the Secretary of Agriculture invalid, Justice Hughes concluded:

"For, as we said at the outset, if these multiplying agencies deemed to be necessary in our complex society are to serve the purposes for which they are created and endowed with vast powers, they must accredit themselves by acting in accordance with the cherished judicial tradition embodying the basic concepts of fair play."

Although Public Law 768 does make provision for a hearing at the request of the licensor, it does not, as did the Act under consideration in the *Morgan* case, provide the hearing should be a "full hearing." But the question necessarily arises why provide for any hearing at all if it is not to be a full one? As there can be no question at all that Royalty Adjustment Order No. W-3, which held that petitioner should have nothing, was based upon a holding of invalidity of the patent, and as the Court of Appeals' ruling deprived petitioner, not only of his con-

stitutional right of trial on the merits of its claim against respondent Timken, but also had the legal effect of setting aside the judgment of the District Court which had become final, petitioner certainly was deprived of property. Obviously, therefore, in a situation such as the present, the statement of the Court of Appeals that provision for a hearing is not constitutionally required is *contra* the entire weight of authority. If this ruling of the Court should be permitted to stand as a precedent, the constitutional prohibition against depriving a person of property without due process of law has and will become meaningless. The situation here is on all fours with that before the Court in the second *Morgan* case at 304 U. S. 1. "No reasonable opportunity was ever accorded" petitioner "to know the claims" of the War Department or "to meet them." No evidence was introduced. No "findings proposed" either before or after the hearing. We do not believe that this Court has ever had presented for its consideration any law that so flagrantly disregards the due process of law requirements as Public Law 768.

We have already discussed the fact that if Public Law 768 authorized the issuance of Royalty Adjustment Order No. W-3, based upon a holding that a duly issued United States patent is invalid, which holding is predicated upon the mere opinion of an executive officer of the Government. Public Law 768 is unconstitutional as a usurpation of a purely judicial prerogative. That the authority to hold a patent invalid resides solely in the courts of the United States is firmly established:

> "The only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the

patent. *Moore v. Robbins*, 96 U. S. 530, 533; *United States v. Am. Bell Telephone Co.*, 128 U. S. 315, 364; *Michigan Land and Lumber Co. v. Rust*, 168 U. S. 589, 593."

McCormick Harvesting Machine Co. v. Aultman, 169 U. S. 606 at 608.

Must the rule of law above quoted be modified to render the right to annul a patent dependent upon an "opinion" of the Chief of Ordnance of the War Department?

Point 6. Neither Public Law 768 nor Royalty Adjustment Order No. W-3 is a constitutionally valid exercise of the Federal right of eminent domain.

The Court of Appeals in its opinion here, after first discussing the Act of 1910, as amended in 1918, stated the constitutionality of this legislation has been upheld, citing *Crozier v. Krupp*, 224 U. S. 290, 307; *Richmond Anchor v. United States*, 275 U. S. 331. The Act of 1910, as we have pointed out, is entirely different and distinct from Public Law 768. The 1910 Act could very properly be held to be an exercise of the right of eminent domain because it very definitely had to do with the use of a patented invention to produce physical objects that in turn were clearly devoted to a public use, namely, guns and gun carriages in the *Crozier* case and cargo beams in the *Richmond* case. Public Law 768, however, has nothing to do with the physical objects which are capable of use for a public purpose, but has to do solely with money due by one private person to another under a license contract. The Circuit Court of Appeals stated:

> "What we have here is a taking of private property for public use. The property involved is the patent owner's royalty rights under the license with the manufacturer. No one doubts, of course, the power of the Government to take private property for public use if the constitutional requirements for compensation are met" (R. 116, 117).

While we agree with the last sentence of the above quotation, we most emphatically challenge the correctness of the first sentence thereof. The opinion proceeds:

> "The necessity for the taking in a particular instance is for the legislative body, not the courts, assuming that the purpose is one for which the power might be exercised. North Laramie Land Co. v. Hoffman, 268 U. S. 276 (1925); Joslin Co. v. Providence, 262 U. S. 668 (1923); Bragg v. Weaver, 251 U. S. 57 (1919)" (R. 117).

Each of the cases cited by the Court concerning necessity for the taking being for the legislative body to decide had to do solely with the condemnation of real property which was directly covered by the legislative act. The legislative acts considered by the court in each of the cited cases do not have the slightest analogy to Public Law 768 as it makes no determination or statement at all of any necessity for the taking of the property of any inventor in any particular instance. The law merely says that it is "to aid in the successful prosecution of the War." And then proceeds in general terms to make the act applicable to the sequestration, not of any *invention*, nor any *physical property*, but merely to *money* due under a license contract relating to an invention. The act signally fails to prescribe any *public* use for such money, or any necessity for the Government to have the

money, or that the money be put to any use that would "aid in the successful prosecution of the War." The Royalty Adjustment Order No. W-3, issued in the instant case, specifically directs that the money which the licensee is ordered not to pay to the petitioner is to be paid "over to the Treasurer of the United States." There is no provision for any further disposition of the money, which leaves no other assumption, but that the money is to be held in escrow until some indeterminate future time when Congress might legislate concerning its disposition. How can this by the wildest stretch of the imagination be properly characterized as "a taking of private property for public use"?

The Court of Appeals' opinion, proceeds in an attempt to demonstrate that the taking provided for by Public Law 768 is a public use, states that the subject matter of the act is clearly within the war power of Congress (R. 117), and reaches the conclusion "that the statute is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power." We assert that Public Law 768 is not a constitutional exercise of the power of eminent domain because it manifestly does not comply with the essential requirement that the property expropriated by the Government be devoted to a public use. We know of no more succinct and pertinent exposition of the type of property that is subject to the right of eminent domain than the following:

> (P. 651) "Every species of property which the public needs may require, and which government cannot lawfully appropriate under any other right, is subject to be seized and appropriated under the right of eminent domain. Lands for the public

ways; timber, stone, and gravel with which to make or improve the public ways; buildings standing in the way of contemplated improvements, or which for any other reason it becomes necessary to take, remove, or destroy for the public good; streams of water; cor-

(P. 652) porate franchises; and generally, it may be said, legal and equitable rights of every de-

scription are liable to be

(P. 653) thus appropriated. From this statement, however, must be excepted money, or that which in ordinary use passes as such, and which the government may reach by taxation, and also rights in action, which can only be available when made to produce money; neither of which can it be needful to take under this power.[1]" *Cooley's Constitutional Limitations*, Fifth Edition, at 651, 652, 653.

It is to be noted particularly that Dean Cooley specifically exempts from the power of eminent domain the right to appropriate money.

We have already discussed the following sentence of the Court:

(P. 651) [2]*People v. Mayor, &c of New York*, 32 Barb. 102.
" [3]*Wheelock v. Young*, 4 Wend. 647.
" [4]*Wells v. Somerset, &c R. R. Co.*, 47 Me. 345.
" [5]*Gardner v. Newburg*, 2 Johns. Ch. 162.
(P. 652) [1]*Piscataqua Bridge v. New Hampshire Bridge*, 7 N. H. 35.
(P. 653) [1]"Taking money under the right of eminent domain, when it must be compensated in money afterwards, could be nothing more nor less than a forced loan, only to be justified as a last resort in a time of extreme peril, where neither the credit of the government nor the power of taxation could be made available. It is impossible to lay down rules for such a case, except such as the law of overruling necessity, which for the time being sets aside all the rules and protections of private right, shall then prescribe."

> "The provision of the law for compensation to the owner is within the constitutional requirement of due process of law" (R. 120).

and have shown that it seems to indicate a misconception by the Court of the true meaning of the constitutional prohibition of the Fifth Amendment with respect to due process. This enunciation of the Court also appears to us to show a lack of proper comprehension of the Fifth Amendment with respect to "the taking of private property for public use" which the amendment specifically states shall not be done "without just compensation." The Court of Appeals held "the provision for recovery of compensation against the United States through suit in the Court of Claims is sufficient compliance with the constitutional provision for just compensation" (R. 119). The cases which the Court cites in support of this holding all had to do with the Act of 1910, as amended in 1918. There is a great difference between the Act of 1910 and Public Law 768 in this respect, as well as in its other provisions to which we have already directed attention. The 1910 Act provided that the recovery of the patent owner in the Court of Claims was to be "his reasonable and entire compensation," while Public Law 768 stated that the recovery shall be:

> "fair and just compensation * * * taking into account conditions of wartime production."

The Fifth Amendment provides for "just compensation" which means entire compensation and nothing else.

Here again if Public Law 768 is to be interpreted in the light of the 1910 and 1918 Acts and the decisions of this Court in support of the latter, we refer to *Richmond*

Screw Anchor Co. v. United States, supra, wherein this Court held:

> "We must presume that Congress in the passage of the Act of 1918 intended to secure to the owner of the patent the *exact equivalent* of what it was taking away from him." 275 U. S. 331 at 345.

Otherwise as the Court held as to the 1918 Act

> "It is an attempt to take away *from a private citizen his lawful claim for damage to his property by another private person* which but for this Act he would have against the private wrongdoer." 275 U. S. 331 at 345.

There can be no *"exact equivalent"* of 50c, but 50c, so the *"fair and just compensation"* which Public Law 768 provides for is manifestly not intended to be the payment of an exact equivalent or even just compensation within the meaning of the Fifth Amendment because the Law directs the fair and just compensation, "IF ANY," eventually to be awarded by the Court of Claims must take "into account conditions of wartime production." Therefore, even if the Governemnt in the Court of Claims should not be successful in an attack on the validity of the patent, the defense not open to the licensee Timken, and could not therefore justify the holding of Order No. W-3 that "fair and just compensation" is $0.00—nothing, the Law not only authorizes but persuades it to reduce the 50c royalty by taking "into account the conditions of wartime production." But why should conditions of wartime production justify a reduction of the royalty rate and the impairment of the contract? Every time the invention is used, the Government and the taxpayers

obtain its benefits and advantages. Obviously if 50c, admittedly a very low royalty, is a fair rate of pay for the savings effected and advantages accruing from the use of one transfer case, how can a hundred thousand uses make the rate less fair or unreasonable or excessive? The greater use as a matter of simple arithmetic compels the opposite conclusion—that the advantages were one hundred thousandfold. The real motive underlying Public Law 768 and the only result achieved by it was to single out inventors and by a piece of flagrant class legislation permit bureaucratic authority to say your annual income shall not exceed a certain sum.* As Congress refused to pass such legislation of general application at the behest of the President why Public Law 768 which affects inventors only—the class of citizens above all others who have contributed most to, and who are most responsible for, the truly miraculous progress made by this Nation in furtherance of the war effort?

The leading case under the just compensation clause is doubtless *Monongahela Navigation Co. v. United States*, 148 U. S. 312, and the language of Justice Brewer in that case so completely analyzes and explains the meaning of the expression "just compensation" in the Fifth Amendment that we quote it as follows:

> "The language used in the Fifth Amendment in respect to this matter is happily chosen. The entire amendment is a series of negations, denials of right or power in the government, the last, the one in point here, being 'Nor shall private property be

*(This is what happened in *Coffman v. Breeze, et al., supra*, where the Royalty Adjustment Orders W-9 and N-7 limited the amount of royalties to be paid the inventor Coffman to $50,000 per year.)

taken for public use without just compensation.' The noun 'compensation,' standing by itself, carries the idea of an equivalent. Thus we speak of damages by way of compensation, or compensatory damages, as distinguished from punitive or exemplary damages, the former being the equivalent for the injury done, and the latter imposed by way of punishment. So that if the adjacent 'just' had been omitted, and the provision was simply that property should not be taken without compensation, the natural import of the language would be that the compensation should be the equivalent of the property. And this is made emphatic by the adjective 'just.' There can, in view of the combination of those two words, be no doubt that the compensation must be a full and perfect equivalent for the property taken."

This Court very recently interpreted the just compensation clause of the Fifth Amendment in *United States v. General Motors Corp.*, 65 S. Ct. 357. We quote the following as particularly pertinent to the situation here:

"When the sovereign exercises the power of eminent domain it substitutes itself in relation to the physical thing in question in place of him who formerly bore the relation to that thing, which we denominate ownership. In other words, it deals with what lawyers term the individual's 'interest' in the thing in question. That interest may comprise the group of rights for which the shorthand term is 'a fee simple' or it may be the interest known as an 'estate or tenancy for years,' as in the present instance. The constitutional provision is addressed to every sort of interest the citizen may possess" (65 S. Ct. 357 at 359).

In *United States v. Miller*, 317 U. S. 369, this Court in an unanimous opinion by Mr. Justice Roberts summed up the rationale of the cases as follows:

> "The Fifth Amendment of the Constitution provides that private property shall not be taken for public use without just compensation. Such compensation means the full and perfect equivalent in money of the property taken. The owner is to be put in as good position pecuniarily as he would have occupied if his property had not been taken."

The conclusion of the Court of Appeals that Public Law 768 is a "constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power" does not stand up upon analysis. Likewise, the conclusion reached by the court that the situation in the present case, or "what we have here is a taking of private property for public use."

Let us first consider the power of eminent domain.

The right of eminent domain is defined as follows:

> "Eminent domain is the right or power of a sovereign state to appropriate private property to particular uses, for the purpose of promoting the general welfare. It embraces all cases where, by authority of the state and for the public good, the property of the individual is taken, without his consent, *for the purpose of being devoted to some particular use*, either by the state itself or by a corporation, public or private, or by a private citizen." *Lewis Eminent Domain*, 3rd Ed. Vol. 1, Sec. 1.

As the right is exercised by the Government, it is subject to certain limitations which were clearly and succinctly set forth by Chief Justice Taney as follows:

> "There are, without doubt, occasions in which private property may lawfully be taken possession of or destroyed to prevent it from faling into the hands of the public enemy: and, also, where a

military officer charged with particular duty may impress private property into the public service or take it for public use. Unquestionably in such cases, the Government is bound to make full compensation to the owner; but, the officer is not a trespasser. *But, we are clearly of the opinion that in all of these cases the danger must be immediate and impending; or, the necessity urgent for the public service, such as will not admit of delay,* and where the action of the civil authority would be too late in providing the means which the occasion calls for. It is impossible to define the particular circumstances of *danger or necessity* in which this power may be lawfully exercised. Every case must depend upon its own circumstances. *It is the emergency that gives the right, and the emergency must be shown to exist before the taking can be justified.*" *Mitchell v. Harmony,* 54 U. S. 115, 126, 134; 13 How. 115, 14 L. Ed. 75.

Since *Mitchell v. Harmony* therefore the rule of law has been consistently followed in all cases involving the exercise of the right of eminent domain that there must first be a determination or finding of a public necessity.

Public Law 768 does not prescribe any means for any determination of necessity by any one, nor does it in the slightest degree, as we shall show, provide for the exercise of the Federal power of eminent domain. It makes no pretense of legislating to take care of any danger,—"immediate or impending" or any "necessity urgent for the public service as will not admit of delay" (*Mitchell v. Harmony, supra*). Indeed, the very provisions of the Act, and Order No. W-3 issued under it in the present case, show the wide open vulnerability of the Act as obnoxious to constitutional validity. As we have shown, the Act by its terms signally fails to set forth anything that in the slightest degree could be interpreted as any finding of

necessity. Likewise the Act is absolutely barren of any provision for any finding of necessity by any one, and indeed barren of any provision for a *finding* of any kind by any one. Instead the Act is unique and, we submit, without precedent, in the basic condition it establishes for its application in any and all cases to which its provisions are to be applied,—the mere belief of the governmental head or agency that royalties being paid by one private party to another under a patent license contract are unreasonable or excessive. The specific language of the Act in this respect is as follows:

> "* * * That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee" (R. 56).

Nothing, we submit, could more clearly illustrate the frailty of the law to constitute a proper exercise of the right of eminent domain in the light of the great weight of authority and under the decisions of this Court. By the very language of the Act if, as found by the Third Circuit Court of Appeals, it is an exercise of the power of eminent domain by Congress, the exercise of such power is made entirely dependent upon a mere "belief" of the head of a Governmental Department or, in other words, an "opinion" of the head of the Governmental

Department that certain royalties are "unreasonable or excessive." There is no provision in the Act for the submission of any evidence, for the making of any finding based upon such evidence, no proper hearing, no proper notice of hearing, no finding as a result of such hearing and no real appeal from such hearing. Instead the Act specifically denies the constitutional right of a licensor to enforce his contract in the constitutional courts, and, as happened in the instant case, even prevents him from enforcing a judgment obtained in such courts or proceeding with a duly perfected appeal therein, but relegates him to the institution of an entirely new suit against a new and different defendant, the United States, in a legislative court, the Court of Claims, with the denial of the right of trial by jury and the granting to the new defendant—a new defense. Meanwhile depriving the licensor of the possession of his property, the money due under his contract, and in which in the instant case there is no public interest, nor public use nor even a possibility of any public use thereof,—and all of this predicated upon a mere opinion of a governmental department head.

It is not necessary to indulge in any speculation, but merely to consider the situation with respect to the Government's need or urgency for the use of the transfer cases supplied to it by respondent, Timken. Manifestly, Timken was entirely free under its license to make, use and sell such transfer cases to the Government and the latter had the free right to use them. Therefore, as far as the use of the invention is concerned, there was no impending danger or urgent necessity. The application of Public Law 768 to the present case clearly demonstrates, therefore, that the law is not an exercise of the right of eminent domain because it clearly does not grant to the Government the right to use something that it otherwise

could not use. The application of the Law in the present case shows it to be absolutely foreign to our system of constitutional Government, as it gives the Government, not the right to use property otherwise unavailable to it, but authorizes it to step between two contracting parties to vitiate the contract freely and in good faith entered into by them and to seize money due under the provisions of the contract.

Least of all is the *money* so seized taken "for the public good * * * for the purpose of being devoted to some particular use," *Lewis Eminent Domain, supra.*

Point 7. Royalty Adjustment Order No. W-3 is invalid because the Order affected the payment of royalties not charged or chargeable to the United States and hence not within the purview of Public Law 768 and the latter is unconstitutional as authorizing the issuance of such Order in contravention to the due process of law.

The District Court in its opinion said:

> "* * * I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here" (R. 36).

Judge Kirkpatrick's conclusion was much more sound than the belief of the Chief of Ordnance and much more correct than the holding of the Court of Appeals that "what we have here is a taking of private property for public use." It is perfectly absurd to contend that there is a sufficient public interest in the money which Timken owes Alma to warrant a denial of such important civil rights as are guaranteed by the constitutional Bill of

Rights. Much ado was made in brief below about increased cost of the war because of excessive, unreasonable, exhorbitant royalties. That the admittedly very low and reasonable royalty of one-half of one per cent, or 50¢ on a transfer case costing $100 is excessive, exhorbitant or unreasonable is so patently ridiculous as to need no further comment. Even if the Government were compelled to pay the full royalty on the less than 100,000 transfer cases involved in this litigation, the resultant cost to the taxpayers of the United States—less than $50,000—is such an almost infinitesimal sum, when compared with the astronomical figures of the war costs, as to render puerile any arguments that can be advanced here concerning increase in the war costs.

But, by the admissions of Timken's own patent attorney, no part of any of this cost has been charged to the Government. With respect to any and all transfer cases for which Timken had received payment prior to July 28, 1943, the date of Royalty Adjustment Order No. W-3, and which royalties Timken on the date of the notice of December 30, 1942, had not paid to Alma, there could be no public interest in these, because Timken had already received payment for them and furthermore is not required by the Order to reduce its contract price to the Government thereon (Order W-3, par. 4, R. 95).

As we have pointed out, nothing better illustrates the vulnerability of the law than the fact that the "prime mover" provided for by the Act to set in motion the issuance of a royalty adjustment order of far-reaching power and effect is the belief or opinion of the head of a Governmental Department. There is no provision in the Act that requires any preliminary investigations to be instigated nor, as we have pointed out, no provision for any

findings to be made. Indeed, the Act makes no provision for any determination as to whether or not a contemplated royalty adjustment order is directed to subject matter that falls within the purview of the Act.

For, although Section 7 thereof specifies the subject matter to which the Act shall apply, as follows:

> "This act shall apply to all royalties directly or indirectly charged or chargeable to the United States: * * *"

the Act makes no provision at all for any determination by anyone as to whether or not the royalties affected by a contemplated order have either ever been charged or are chargeable to the United States. Surely the Act to be valid should have contained a provision to the effect that before any written notice such as provided for by the Act is given, the head of the Department concerned should make a proper investigation to determine whether "the royalties, the rates, or amounts of which are believed to be unreasonable or excessive" have been charged or are chargeable to the United States.

Perhaps it may seem that it should not be necessary to include any such provision as this in the Act on the assumption that no responsible head of a Governmental Department would issue an order under the Act without first determining whether or not the royalties to be affected by the order had either been charged or were chargeable to the Government. Of course, the words "chargeable to the Government" are not intended to mean past potentiality—but present potentiality. In other words, it does not mean that they could have been charged in the past if, as a matter of fact, they were not, but the words "chargeable to" were obviously included

in the Act to take care of the situation wherein the royalties to be affected by an order are ones which have not as yet been actually charged to the Government but which would be chargeable at some future date.

The above discussion might seem far-fetched were it not for the fact that Royalty Adjustment Order No. W-3 in the present case obviously was issued without any investigation by the Chief of Ordnance or anyone else in the War Department to find out what royalties, if any, on the transfer cases supplied by Timken to the Government and which were due and payable to Alma had, in fact, been charged either directly or indirectly or were chargeable to the United States. There is nothing in the record to show that the prime condition precedent existed, namely, that the royalties involved had been charged or were chargeable to the Government. There is no finding of any kind in the record by the Chief of Ordnance or the Royalty Adjustment Board. Insofar as the latter is concerned, there is nothing to indicate any disposition on the part of the Board to do anything but carry into effect the opinion and will of the Chief of Ordnance without cavil. Indeed, the Board's eagerness in this respect was made quite manifest by the dictatorial pronouncements of the Presiding Officer of the Board at the hearing that there was to be no argument about the matter. The record, however, contains a direct and positive averment to the contrary, in the affidavit of Timken's patent attorney Gallagher, filed in support of Timken's motion to dismiss petitioner's appeal, which stated that:

> ... * * * all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of Ruggles and Smith patent 2,173,044,

> have been manufactured and sold directly or indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; * * *" (R. 60).

Obviously, if royalties were charged only on T-43-P-1 and T-43-V-1 transfer cases, no royalties were charged to Timken on any of the T-32-13 or T-79 transfer cases enumerated in the Schenck affidavit (R. 105). Equally obviously, if Timken had received payment from the Government for any of the latter transfer cases by July 28, 1943, the date of Order No. W-3, the transaction between Timken and the Government as to them was a closed book on that date. And as to them the decision of the Court of Appeals herein closed the book to petitioner. Moreover, unless the money due petitioner as to them was paid into the Treasury petitioner would have no standing in a suit in the Court of Claims for it could not show by a petition to be filed therein that the Government was or is withholding any money alleged to be due petitioner.

Timken would be in no position to attempt to revise its charges upward to the Government for the transfer cases which it sold and had been paid for to increase such charges by the amount of the royalty of 50¢ per transfer case. By the same token, as Timken never charged the royalty to the Government Timken could not reduce its charges to the Government in any event, and certainly not on cases sold and paid for prior to such date, as this is specifically exempted by the provisions of Paragraph 4 of the Order, as we have already pointed out.

Even in the absence of the averments in the Gallagher affidavit the facts are quite clear. Timken wished to

avoid paying the royalty to Alma which it contracted to pay. The record in the Court of Appeals shows that although the contract provided Timken should pay royalty on any and all transfer cases dominated by the claims of the Ruggles and Smith patent, Timken for some unknown reason concluded it would pay royalties only on transfer cases which came under the terms of Claims 1 to 4 of the patent. For some equally inexplicable reason, it assumed itself to be beyond the application of the principle of law that a licensee is estopped to deny the validity of a patent under which a licensee is licensed. Although its counsel admitted in Court that the T-32-13 cases and the T-79 cases were dominated by certain of the claims of the Ruggles and Smith patent (D.A., pp. 152a-153a), it refused to pay royalties to Alma on any of these transfer cases and attempted to urge a construction of the claims of the patent that would limit their scope to an extent such that the claims would be held by the Court not to cover the particular cases in issue. Having taken such position, Timken was perforce obliged not to charge any royalties on these cases because if it were discovered that Timken was charging the royalty thereon to its customers, its position in the trial in the District Court case would have been considerably weakened, if not made entirely untenable.

It therefore assumed the full responsibility for the payment to Alma of any and all royalties that would be held to be owing by it to Alma.

We submit it is perfectly clear from the foregoing that there is and can be no possible public interest in the royalties which Timken owed, and should have paid to, Alma: (a) in the first place because Timken fully assumed the liability and responsibility for their payment; (b) in the second place because none of these royalties were ever charged to or are now chargeable to the United

States; (c) because as to all of the royalties already adjudged by the District Court to be due and payable by Timken to Alma and as to any and all of the royalties that may be due and payable, depending upon the outcome of Alma's appeal to the Third Circuit Court of Appeals, Timken obviously already had received payment for them before July 28, 1943.

We submit it to be equally clear that the issuance of Royalty Adjustment Order No. W-3 and the upholding of its validity by the Third Circuit Court of Appeals has not, and will not have, save the taxpayers of the United States one single penny but has merely resulted in depriving petitioner Alma of its property, the money due to it by Timken under the license contract—all to the impoverishment of Alma and the unjust enrichment of Timken. So if Public Law 768 is not invalid and unconstitutional for any of the many reasons we have hereinbefore fully discussed, it would be invalid and unconstitutional on the grounds that, in the present case, it has been employed to accomplish no other result than that of depriving Alma of its private property for the unjust enrichment of Timken.

CONCLUSION

It is therefore respectfully submitted that the decision of the Third Circuit Court of Appeals be reversed; that Royalty Adjustment Order No. W-3 be held invalid and that Public Law 768, insofar as it authorized the issuance of said Order,—and also because Public Law 768 has so many manifestly glaring and constitutionally obnoxious defects,—be held unconstitutional in the following respects:

(1) That it was used as a means to usurp and oust the constitutional jurisdiction of the Federal Courts;

(2) That it was used as means to vitiate and render nugatory a prior judgment of the Federal District Court;

(3) That it is arbitrarily and capriciously retroactive in character;

(4) That it resulted in depriving a person of property without due process of law (a) by failing to give the person so deprived of property due notice and hearing; and (b) by failing to give such person a proper appellate review in that the sole and exclusive remedy provided for by the law is by way of suit against a new defendant, the United States, in the non-constitutional Court of Claims with a new defense not available to the person, primarily liable under a civil contract;

(5) That it was not a proper exercise by Congress of any of its granted powers and specifically the patent

power, the war power or an exercise of the right of eminent domain;

(6) That it does not constitute an exercise of the right of eminent domain because it does not (a) provide for the taking of private property for public use, but instead provides for the sequestration of mere money; (b) provide for any showing of necessity for such taking, or (c) provide for just compensation to the owner of the property, and

(7) That it results in the taking of private property from one private person and turning it over to another private person for the unjust enrichment of the latter.

Wherefore, petitioner respectfully prays that this case be remanded to the Third Circuit Court of Appeals with directions to such Court to vacate its Order of August 7, 1944, herein, as amended October 2, 1944; to proceed to hear petitioner's appeal on its merits and for such other action as in the opinion of this Court is necessary and proper in the premises.

Respectfully submitted,

I. Joseph Farley,
Counsel for Petitioner.